2017 Tax Cuts and Jobs Act - Meals and Entertainment Expenses

The 2017 Tax Cuts and Jobs Act has resulted in many changes regarding how business expenses are treated. One of the major changes in the tax reform is the deductibility of Meals and Entertainment expenses.

For tax years beginning after 12/31/17, the following changes are in effect:

- The act disallows a deduction for an activity considered to be for entertainment, amusement or recreation. This includes business entertainment, skyboxes or other private luxury boxes at sporting events, sporting/theatre tickets, golf trips and entertainment facilities that include lodges and resorts.

- Country club dues are not deductible. However, meals purchased with business clients at the club are deductible up to the 50 percent limit.

- Meals for a company are deductible as a business expense only if specific conditions are met. The deduction for meals is limited to 50 percent of the cost. To be considered directly connected to the business, three conditions must be met:
  1. It must have been scheduled with more than a general expectation of deriving future income, or resulting in a specific business benefit. A meal for general goodwill purposes does not qualify. There has to be a specific business purpose.
  2. A business meeting, negotiation or transaction must actually occur during the meal.
  3. The main character of the event is the active conduct of your company's trade or business.

- Effective 1/1/2018 through 12/31/2025, on premise meals provided to employees for the convenience of the employer are 50% deductible. These meals must be located on or near the employer’s business premises. After 12/31/2025, these will be non-deductible. Before 1/1/2018, these meals were 100% deductible.

- Expenses for traditional recreational, social or similar activities for employees are 100% deductible. These expenses include Christmas parties and summer outings.

- Meals occurred while traveling for business are also 50% deductible.

- With all of the changes noted above, keeping an up to date record or travel log of all expenses occurred related to meals and travel is critical. Taxpayers may be required to produce receipts or paid bills in order to deduct such expenses.

If you have any questions, please contact Scott Sutton at ssutton@somersetcpas.com.