



# THE SMALL BUSINESS LEGISLATIVE COUNCIL'S GUIDE TO THE DEDUCTIBILITY OF EXPENSES FOR MEALS AND ENTERTAINMENT UNDER THE NEW TAX LAW

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The Tax Cuts and Jobs Act ("TCJA") made significant changes to the rules governing the deductibility of business meals and entertainment expenses for all businesses.

## Prior to the passage of the TCJA:

- 50% of expenses for business related meals and entertainment that were not "lavish or extravagant" were deductible; and
- 100% of expenses for meals provided as a "fringe benefit" to employees by the employer were deductible.

## The law today (after the passage of TCJA):

- **Entertainment expenses** – even if they are directly related to or associated with substantial business discussions, entertainments expenses, are not deductible. These expenses include tickets to a sporting or other events, costs for skyboxes and suites AND meals during the entertainment. Gone is the deduction for payments made to charitable sports events or contributions for the right to purchase tickets to an educational institution's athletic events.

**Also gone – the deduction for payments for membership dues for any club** organized for business, pleasure, recreation or other social purpose, such as country clubs, golf clubs, business luncheon clubs, athletic clubs and airline and hotel clubs. After the TCJA, such payments are not deductible. However, a business meal at such a club, if it meets the criteria for a deductible business meal, is still 50% deductible.

- It appears that dues paid to a professional organization such as bar associations, medical associations, trade associations, civic or public service type organizations such as Rotary are not affected by the TCJA and the old rules apply. Dues paid to these types of organizations are deductible if membership in the organization helps one to carry out the duties of his/her job or allows one to promote his/her business. It also appears that dues paid to chambers of commerce, boards of trade, real estate boards and local business leagues are not affected by the new law. However, if the primary purpose of any of these types of organizations is to provide entertainment then the dues are not deductible.
- **Businesses can still deduct 50% of meals for employees when traveling or when discussing business with clients or prospects as long as meals are not lavish or extravagant.** In the wake of the TCJA's passage, some legal experts maintained that this deduction was also gone based on prior case law that held that "meals" were encompassed in the term "entertainment." They claimed that since expenses for entertaining clients were no longer deductible then expenses for meals would also not be deductible. **At the recent ABA Tax Section held in Washington, the IRS**

**hopefully put this issue to rest by stating that the 50% deduction for meals is still in place as long as the meals are not “lavish.”**

- Meals provided through an in-house cafeteria or otherwise for the convenience of the employer (e.g., meals provided for employees working over-time) are 50% deductible until 2025. As of 2026, this deduction will be eliminated.
- Expenses for holiday parties or similar recreational/social activities for employees are still 100% deductible (this rule was not changed by the tax bill).
- The AICPA has requested additional guidance from IRS on these rules. The SBLC will keep on top of this issue and will let you know if the IRS guidance (which we are hoping will come out by late summer) is different from the above which is the consensus of most experts.