

The [Tax Cuts and Jobs Act of 2017](#) has made significant changes to the deductibility of business meals and entertainment starting in 2018.

At a high level, entertainment expenses are nondeductible and most meals are 50 percent deductible. Previously entertainment expenses were 50 percent deductible and a broader array of meals had the potential to be 100 percent deductible. We anticipate this area of tax reform will be heavily scrutinized by the IRS. It is important that your partners and employees properly enter and describe their activities.

A sample listing of the types of categories that you may wish to use is as follows:

- Entertainment
- Entertainment – mileage
- Meals
- Meals – celebratory
- Travel – airfare
- Travel – lodging
- Travel – mileage
- Travel – other
- Nondeductible dues
- Professional dues and meetings
- Sponsorships

Meals with client

In order for meals to be considered 50 percent deductible business must be discussed during the meal and should be classified as: ***meals***. If no business is discussed the meal is not deductible for tax purposes and thus should be entered as: ***entertainment***.

Meals with coworkers

Meals with employees/coworkers where business is discussed are considered 50 percent deductible and should be classified as: ***meals***. If no business is discussed the meal is not deductible for tax purposes and thus should be entered as: ***entertainment***.

Meals while traveling

Meals when traveling for business are considered 50 percent deductible and should be classified as: ***meals***.

Celebratory meals

Company activities, such as holiday parties, birthday and anniversary celebrations, picnics, etc. are fully deductible. In order to capture the 100 percent deductibility, these expenses should be classified as: ***meals – celebratory***.

Entertainment

No tax deduction is allowed for entertainment, amusement or recreation expenses. This includes tickets to not-for-profit high school or college sporting events, leased skyboxes for sporting events, transportation to/from sporting events, cover charge, taxes, tips and parking for entertainment events. These types of expenses should be classified as: ***entertainment***.

Membership dues/fees

Generally, you cannot deduct amounts paid or incurred for membership in any club organized for business, pleasure, recreation or any other social purpose. This includes country clubs, golf and athletic clubs, hotel clubs, sporting clubs, airline clubs and clubs operated to provide meals under circumstances generally considered to be conducive to business discussions. These types of expenses should be classified as: ***nondeductible dues***.

Exception: The following organizations are not treated as clubs organized for business, pleasure, recreation or other social purpose unless one of the main purposes is to conduct entertainment activities for members or their guest or to provide members or their guests with access to entertainment facilities and can be classified as: ***professional dues and meetings***.

- Boards of trade
- Business leagues
- Chambers of commerce
- Civic or public service organizations
- Professional organizations such as bar associations
- Trade associations

Sponsorship events

Payments for sponsoring events, such as charity dinners or golf outings, will require separately stating the following amounts: fair market value (FMV) of entertainment, FMV of meal and the remainder being classified as: ***sponsorship***.

Example 1

You drive to meet a client, have dinner with them *where substantial business is discussed*, attend a sporting event and you drive home. Below is how the expense should be classified:

- Expenses for mileage to and from the time with the client: ***travel - mileage***
- Dinner and/or drinks for the night: ***meals***
- Sporting event tickets: ***entertainment***

Example 2

You drive to meet a client, attend a sporting event *where substantial business is discussed* and you drive home. Because the premise of the evening is to attend a sporting event below is how the expense should be classified:

- Expenses for mileage to and from the time with the client: ***entertainment - mileage***
- Drinks for the night: ***meals***
- Sporting event tickets: ***entertainment***

Example 3

You pay \$5,000 to attend a YMCA golf outing with prospects *where substantial business is discussed* and the letter breaks out the fees as follows: hole sponsorship \$3,500, green fees \$1,000, lunch/drinks \$500. Below is how the expense should be classified:

- Hole sponsorship: ***sponsorship***
- Green fees: ***entertainment***
- Lunch/drinks: ***meals***

Please be aware, this may not be final as the IRS may issue more guidance on this area. This should be used as a guide to help you determine how to record these types of expenses so that the deductibility is clear.

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