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BUSINESS
By Jamie Herzlich

Meals and entertainment: What's deductible after the tax overhaul

The IRS has issued interim guidance that allows a 50 percent deduction for meals if certain criteria are met.

Earlier this year, the deduction for business-related entertainment expenses was eliminated by the Tax Cuts and Jobs Act, bringing into question whether meals tied to entertainment would also be a casualty.

That uncertainty's been laid to rest as the IRS recently issued interim guidance that allows a 50 percent deduction for meals if certain criteria are met, such as food or beverages that aren't considered lavish or extravagant under the circumstances.

"The big issue was what was or wasn't considered entertainment with respect to meals," says Barbara Weltman, a Vero Beach, Florida-based small business tax specialist and author of J.K. Lasser's "Small Business Taxes 2019" (Wiley; $22.95). "This guidance cleared up all the questions we had following the enactment of the new law."

It could have been costly for businesses come tax season if they didn't know whether they could write off their meal costs, said Weltman.

But under the interim guidance, food and beverages provided at events won't be considered entertainment if purchased separately from the event, she says.

So for example, if you take a client to a ball game and purchase hot dogs and drinks and have a separate receipt, you can write 50 percent of that food cost off, but not the ticket price, she says.

Alternatively, if you purchase box seats at a game and food and beverages are included in the ticket price, that wouldn't be deductible unless the food costs were itemized separately from the ticket price, says Weltman.

That shouldn't be an issue in most cases.

Jason Drucker, a tax manager at Grassi & Co., CPAs in Jericho, says, “Most of the sports venues have been able to break out and itemize expense reports for food and beverages” for the firm’s clients.

He said businesses must be diligent about keeping receipts and looking at entertainment and meals as two separate items when they’re putting together expense reports.

Under the IRS guidance, the meal deduction can be used if the cost is part of ordinary and necessary expenses in carrying on any trade/business; the taxpayer, or an employee of the taxpayer, is present at the meal; and the fare is provided to a customer or prospective client.

While the 50 percent meal deduction is helpful, “businesses are losing out overall because the entertainment side is where more of the expenses might have occurred, and that’s still not deductible,” says Drucker. Previously entertainment expenses had been 50 percent deductible.

So for instance, businesses can no longer take a 50 percent deduction for club dues when taking clients to play golf, says Robert Spielman, a tax partner at Marcum LLP in Melville, or for entertaining at nightclubs, theaters, country clubs and sports events.

Proposed regulations further clarifying meals are expected to be published by the Department of Treasury and the IRS, says Spielman, but the IRS didn’t specify when that would be.

In the meantime, “the guidance provides a current roadmap,” says Spielman.

To be sure, the new guidance “adds a ton of clarity,” says Edward McWilliams, a manager at Cerini & Associates, CPAs in Bohemia. “The more information they put out, the more better decisions can be made.”

The guidance is along the lines of what he expected, he said, noting he’s already seen somewhat of a change this year as clients place less emphasis on entertainment-type events and more on food and beverage items.

Even without the guidance, McWilliams advised clients to keep good records regarding meals: “There always has to be a business purpose for a meal to be deductible.”