



Dear Client:

Lawmakers finally did it. They got rid of the biggest loophole businesses use (and frequently abuse) to reduce their taxes – Entertainment and Meals. Effective January 1, 2018 – Yes, NOW – nearly all deductions for directly related and associated entertainment is gone as are the majority of meal costs.

Entertainment is OUT:

For example, during 2017, you could take a prospect or client to a business dinner followed by the theater or a ballgame and deduct 50 percent of all the monies spent, providing you passed some tests on business discussion and associated entertainment. While, for the majority of businesses, this will have some impact but not a huge one, its impact is going to be critical to outside sales persons – especially those in insurance and real estate – who, because they usually have no office other than their residence, routinely use restaurants as a second office for client and prospect appointments.

But, as of now, entertainment is non-deductible, even when its mission is the generation of business income or other specific business benefit. And it applies regardless of your business discussion, negotiation, business meeting, or other bona fide transaction.

It no longer matters if you conduct business or make a sale before, during or after the entertainment. No forms of entertainment, amusement or recreation expense, other than those listed below, are deductible as business expenses. The ban includes any type of tickets for entertainment, sporting events, amusement parks or recreation centers and it also includes other sports activities such as skiing and golf.

Meals are mostly OUT:

We can no longer take clients out to a business dinner and deduct even 50% of the meal Business. With clients or prospects are 100% on you now.

Further, employers who provided business meals for their employees are losing 50% of their previously-allowed 100% deduction for business meals for now.

Employee meals that were previously 100 percent but are now only 50 percent deductible as of January 1, 2018, include:

-) meals served at required business meetings regardless if the venue is your office, a hotel or a restaurant.
-) meals served to employees whether or not they are required to staff their positions during breakfast, lunch, and/or dinner times; the food is served at in-office cafeterias or are costs for the convenience of the employers

For 2018, you need an account in your chart of accounts that says something like “meals subject to 50 percent cut.” In this category, you can put travel meals and the meals above.

What Items of Entertainment and Meals Survived:

The good news is that you can still deduct 50% of the above-mentioned meals until January 1, 2026 when all meals become non-deductible. But we still have 8 years where we can take 50% so that is something. A lot can happen in 8 years.

AND, Tax code Section 274(e) pretty much survived. Under this section, you can continue to deduct

-) entertainment, amusement, and recreation expenses you treat as compensation to employees that are included as wages for income tax withholding purposes;
-) expenses for recreational, social, or similar activities (including facilities therefor) primarily for the benefit of employees (other than employees who are highly compensated employees);

-) Expenses that are directly related to business meetings of employees, stockholders, agents, or directors (food and beverages limited to 50 percent);
-) expenses directly related and necessary to attendance at a business meeting or convention such as those held by business leagues, chambers of commerce, real estate boards, and boards of trade (here, the law also limits expenses for food and beverages to 50 percent);
-) expenses for goods, services, and facilities you or your business makes available to the general public;
-) expenses for entertainment goods, services, and facilities that you sell to customers;
- and
-) expenses paid on behalf of nonemployees that are includible in the gross income of a recipient of the entertainment, amusement, or recreation as compensation for services rendered or as a prize or award.

When you are considering using the above survivors of tax reform's entertainment cuts, you will find good strategies in the following:

1. Renting your home to your company
2. Taking your employees on an employee party trip
3. Making your vacation home a deductible entertainment facility
4. Creating an employee entertainment facility which will be deductible because facility use creates compensation to the users
5. Instead of speaking to one prospect over a meal, hold a seminar, open it up to the general public, charge a nominal fee and provide the venue, the information and food all which will be deductible (food limited to 50%). Keep in mind that your 'venue' can be your home or another entertainment facility provided by you.