



Changes in the deductibility of meals and entertainment post Tax Reform

There have been changes to the deductibility of meals and entertainment since the enactment of the recent tax reform commonly referred to as the Tax Cuts and Jobs Act (TCJA). We want to provide you with this update so you can revise your accounting systems and expense and reimbursement policies in order to comply with the new law for the 2018 tax year.

Under the old law, the deduction allowed for entertainment was limited to 50% and meals that were not lavish or extravagant were also limited to 50%. Since both have been subject to the 50% deductible limit, it has been most common that your accounting system has had one expense account called "Meals and Entertainment". The TCJA has made changes to the Internal Revenue Code section 274 under Pub. L No. 115-97 that fully disallows entertainment deductions.

Our firm asks that you establish 3 separate expense accounts to track the following:

1) Entertainment expense (0% deductible)

- examples of entertainment expenses may include but are not limited to tickets to sporting events, shows, and excursions

2) Meals expense (50% deductible)

- business meals that (1) take place between a business owner or employee and a current or prospective client; (2) are not lavish or extravagant under the circumstances; and (3) where the taxpayer has a reasonable expectation of deriving income or other specific trade or business benefit from the encounter

3) Meals expense (100% deductible)

- meals provided on the employer's premises if more than half on the employees receiving meals do so for the convenience of the employer
- employer-provided break room snacks and beverages

By utilizing 3 accounts to distinguish between these types of expenses, it will greatly assist us as your tax preparer to account for these items without having to incur excess time to analyze a combined "Meals and Entertainment" account for proper treatment under the new tax law.