

MEALS AND ENTERTAINMENT



As a result of the **TCJA and Consolidated Appropriations Act of 2021**

At the end of 2017, the Tax Cuts and Jobs Act (TCJA) imposed new limitations on business deductions for meals and entertainment expenses that were incurred or paid after December 31, 2017. Many of the TCJA's provisions remain in effect to this day, but Congress temporarily reversed some of the changes with the Consolidated Appropriations Act of 2021 (CAA), making certain business meals 100% deductible in 2021 and 2022.

TCJA Changes

Under the TCJA, entertainment expenses are generally not deductible, and most meals are only 50% deductible. The only meal categories that remain fully deductible under the TCJA are: meals sold to a client or customer; food offered to employees, as long as it is recorded as a taxable fringe benefit; and food offered to the public for free, like what might be available in a waiting room.

One of the TCJA's more controversial changes was the elimination of the meals deduction if the meals were accompanied by entertainment. The IRS addressed this issue in September 2020. This final rule preserved the 50% deduction for meals served at entertainment events, but only if the meals cost is separately stated on the invoice.

Consolidated Appropriations Act of 2021 Changes

Only a few months after the IRS released its clarifying remarks on the TCJA's adjustments to the meals and entertainment deduction, Congress passed another tax bill that made a few more modifications. The Consolidated Appropriations Act, 2021, which was passed in December 2020, temporarily boosted most meal expense deductions to 100% if those meals are provided by a restaurant.

This table summarizes how meal and entertainment expenses are treated before and after the TCJA, taking into account the modifications introduced by the Consolidated Appropriations Act.

| ACTIVITY | PRE-TCJA (2017 & PRIOR) | TCJA (2018-2020, 2023+) | TCJA + CAA (2021-2022) |
|--|----------------------------|---|------------------------------|
| Employee meals treated as de minimis fringe benefits (and therefore excluded from the employee's gross wages) <i>Example: Coffee, juice, & bagels are provided every so often in the breakroom for employees</i> | 100% deductible | 50% deductible, nondeductible beginning in 2026 | 100% deductible in 2021-2022 |
| Employee meals treated as fringe benefits (and therefore included in the employee's gross wages). <i>Example: The company offers to coordinate meals during a stressful week and lets employees know the cost of the meals will be taxable to them as wages.</i> | 100% deductible | 100% deductible | 100% deductible |

| ACTIVITY | PRE-TCJA (2017 & PRIOR) | TCJA (2018-2020, 2023+) | TCJA + CAA (2021-2022) |
|--|---|--|--|
| <p>Employee travel meals</p> <p><i>Example: An employee drives six hours to visit a client and must stay overnight. All meals the employee eats on the road (breakfast, lunch, and dinner) are modestly priced.</i></p> | 50% deductible | 50% deductible | 100% deductible |
| <p>Employee meals during off-site meetings or conventions</p> <p><i>Example: An employee pays \$15 to attend a monthly chamber of commerce meeting over the lunch hour.</i></p> | 50% deductible | 50% deductible | 100% deductible |
| <p>Employee meals provided for the convenience of the employer</p> <p><i>Example: During the monthly manager meeting, lunch is served to limit the lunch break.</i></p> | 100% deductible | 50% deductible, nondeductible beginning in 2026 | 100% deductible if meals are purchased from a restaurant |
| <p>Office holiday parties WITHOUT customers or family members</p> <p><i>Example: Each summer, the business hosts a picnic for employees during the workday to celebrate a job well done.</i></p> | 100% deductible | 100% deductible | 100% deductible |
| <p>Office holiday parties WITH customers or family members present</p> <p><i>Example: Each year, the business hosts an after-hours party for the employees and the firm's best clients.</i></p> | Cost per employee: 100% deductible Cost per customer: 50% deductible | Cost per employee: 100% deductible Cost per customer: nondeductible | Cost per employee: 100% deductible Cost per customer: nondeductible |

| ACTIVITY | PRE-TCJA (2017 & PRIOR) | TCJA (2018-2020, 2023+) | TCJA + CAA (2021-2022) |
|--|---|--|---|
| <p>Meals during business meetings with prospects or clients</p> <p><i>Example: An employee meets with a prospective client over a modest lunch to discuss business.</i></p> | 50% deductible | 50% deductible | 100% deductible if meals are provided by a restaurant |
| <p>Meals during meetings (that are entertaining in nature) with prospects or clients</p> <p><i>Example: An important prospect is invited to a private tasting at a fancy restaurant with the CFO and CEO.</i></p> | 50% deductible | Value of meal: 50% deductible if meal costs are stated separately Value of entertainment: nondeductible | Value of meal: 100% deductible if meal costs are stated separately Value of entertainment: nondeductible |
| <p>Entertainment costs for prospects or clients</p> <p><i>Example: The firm invites a prospect to the next football game and buys tickets in a corporate box suite. Business and non-business topics are discussed.</i></p> | 50% deductible | Nondeductible | Nondeductible |
| <p>Tickets to charitable fundraising events</p> <p><i>Example: The firm purchases a table at a local nonprofit's benefit fundraiser.</i></p> | Value of meal: 50% deductible Remaining ticket price: 100% deductible as a charitable contribution | Value of meal: 50% deductible if meal costs are separately stated Remaining ticket price: 100% deductible as a charitable contribution or as an advertising expense | Value of meal: 100% deductible if meal costs are separately stated Remaining ticket price: 100% deductible as a charitable contribution or as an advertising expense |

STEPS TO TAKE NOW

To account for these changes, we recommend that you create, at a minimum, separate accounts for "entertainment" and "meals." You may choose to further subcategorize your expenses to accommodate your company's most common activities. No matter what your general ledger looks like, you should continue to collect the following documentation to corroborate your deductions: **(1)** expense amount, **(2)** event date, **(3)** activity location, **(4)** purpose of business discussion, and **(5)** which employees and clients/prospects were included.