

## **Order the Steak! Meal Deductions Will Be Allowed**

*(Edited from The Wall Street Journal)* Breathe a sigh of relief if you take clients (or doctors, employees, etc.) out for business meals. The Internal Revenue Service is expected to release guidance soon saying these meal expenses can often continue to be 50% deductible, according to people familiar with the matter.

For years, this deduction has been used by millions of American business owners, lawyers and real-estate brokers who take clients out for meals. But when lawmakers dropped rates for business income to new lows as part of the massive tax overhaul, they slashed some food and entertainment deductions for businesses to help pay the tab.

The biggest whack ended deductions for client entertainment—such as sports tickets, or the cost of travel on the company jet to play golf. Formerly, this write-off was 50% of qualified expenses.

The law's hasty passage, however, left important details unclear. Tax professionals say the new law's language could be read to mean that deductions for client meals would drop from 50% to zero, if the business meal was considered "entertainment." This term wasn't defined, raising the fear that write-offs for ordinary client meals were vulnerable.

However, the IRS's guidance is expected to take a tack that generally preserves the 50% deduction for the cost of meals with clients. It's also expected to offer details on how the 50% meal write-off meshes with the new denial of entertainment deductions.

For example, if a business owner takes a client to a ballgame, the cost of the tickets isn't deductible because the expense is for entertainment. If the owner buys hot dogs and drinks for himself and the client at the game, this expense could still be 50% deductible, the IRS is expected to say.

The cost of the meal would also be deductible if it's part of the ticket price but is detailed separately from the cost of watching the game. If the food cost is part of the ticket price and not broken out separately, then it wouldn't be deductible. So if someone pays \$200 for ballgame ticket, including food that's not itemized, then the entire \$200 wouldn't be deductible.

The IRS will also likely warn taxpayers not to inflate the amount charged for food and drinks to get around the restriction on entertainment. In other words, don't reallocate expenses so that the round of golf with a client costs \$20 and the lunch afterward costs \$400.

The IRS's clarifications aren't expected to change the normal requirements business owners must meet to take deductions for client meals.

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Business must be discussed before, during or after the meal. And the meal must not be “lavish or extravagant.” This term is elastic and depends on the occasion, specialists say.

The expected IRS guidance on client meals is a rare bright spot among write-offs for business food and entertainment. Most are now lower than before the tax overhaul. They are also worth less, because tax rates in many instances are much lower.

For example, the write-off for office coffee, tea, and snacks such as pretzels has now dropped to 50% from 100%. So has the deduction for a company-provided cafeteria for workers. A valuable freebie for some firms and workers also took a big hit. The write-off for the cost of free meals provided “for the convenience of the employer” is now 50% versus 100% in prior law and could drop to zero in the future.

This reduction will affect the meals that some companies provide to workers during busy times (such as tax season) and that other companies offer all the time, say on a Silicon Valley campus.

To be sure, a few food and entertainment deductions haven’t budged. Social and recreational meals and entertainment for employees, such as a holiday party, can still be 100% deductible. Meals provided in the executive dining room also remain 50% deductible. Meals and entertainment for certain meetings of employees, partners, directors and shareholders are expected to remain 50% deductible as well, although the law currently says this entertainment is 100% deductible. Tax specialists say this is a drafting error likely to be corrected.

### Examples of Deductibility of Meals Under the New Law

Category	Example	Pre-Tax Reform Treatment	Post-Tax Reform Treatment
Snacks furnished on premises for employees	Break room donuts and coffee	100% Deductible	Likely 50% deductible in 2018, Non-deductible starting in 2025
Meals as part of a nondiscriminatory recreational or social activity	Dinner at the company's annual holiday party	100% Deductible	100% Deductible
Meals during business travel	Dinner on the way to a conference	50% Deductible	50% Deductible
Meals at business meetings of employees, stockholders, and directors	Business lunch for the board at a restaurant	50% Deductible	50% Deductible
Meals at a business meeting with a customer	Breakfast at a diner to discuss a customer's loan application	50% Deductible	50% Deductible
Food made available to the general public	Refreshments at a branch open house / Refreshments in your office lobby	100% Deductible	100% Deductible
Convenience of the employer meals	Lunch brought into the office for the employees due to a staffing shortage	100% Deductible	Likely 50% deductible in 2018, Non-deductible starting in 2025