

Tax Treatment of Business Meals and Entertainment Expenses

The tax treatment of business meals and entertainment expenses has changed significantly in recent years. Following the Tax Cuts and Jobs Act of 2017, the deduction for most food and beverage business expenses were limited to 50%. However, the Taxpayer Certainty and Disaster Relief Act of 2020 allowed for food and beverage business expenses incurred in 2021 and 2022 to qualify for a 100% deduction when purchased from a restaurant. For this purpose, a restaurant is a business that prepares and sells food or beverages to retail customers for immediate consumption, regardless of whether the food or beverages are consumed on the business' premises. A restaurant does not include a business that primarily sells pre-packaged food or beverages not for immediate consumption, such as a grocery store; specialty food store; beer, wine, or liquor store; drug store; convenience store; newsstand; or a vending machine or kiosk.

For bookkeeping purposes for the 2021 and 2022 tax years, it would be beneficial for taxpayers to separately track their entertainment expenses (which will be nondeductible); their food and beverage expenses entitled to a 50% deduction; and the food and beverage expenses entitled to a 100% deduction. To assist in determining the deductibility of these expenses, please consult the reference chart below. **Contact your KSM advisor with any questions or concerns.**

Expense Description	Notes	General Rule	Purchased from a Restaurant 2021 - 2022
Client Business Meal	In order to be deductible: (1) The meal(s) must be ordinary and necessary to the trade or business. (2) The meal(s) may not be lavish or extravagant. (3) The taxpayer, or an employee of the taxpayer, must be present at the meal. (4) The meal must be provided to a current customer, client, consultant, or similar business contact (i.e. a prospective client).	50% Deductible	100% Deductible
Meals During Travel	In order to be deductible, the meals must not be extravagant or lavish, and the travel must be made in pursuit of a trade or business.	50% Deductible	100% Deductible
Meals Provided Primarily to Employees on the Business Premises	Previously, if these meals were primarily for the convenience of the employer and qualified as de minimis fringe benefits, they would qualify for 100% deduction.	50% Deductible	100% Deductible

Expense Description	Notes	General Rule	Purchased from a Restaurant 2021 - 2022
Water, Coffee, and Snacks Provided on the Business Premises	Previously, if these meals were primarily for the convenience of the employer and qualified as de minimis fringe benefits, they would qualify for 100% deduction.	50% Deductible	50% Deductible
Employee Shift Meals	These include restaurant or caterer's costs for food and beverage items, purchased in connection with preparing and providing meals to its paying customers, that are consumed at the worksite by employees of the restaurant or caterer.	100% Deductible	100% Deductible
Meals Treated as Compensation to an Employee or an Independent Contractor		100% Deductible	100% Deductible
Meals Sold to or Reimbursed by a Client or Customer		100% Deductible	100% Deductible
Meals at Internal Business Meetings	Meals at business meetings must be directly related to meetings of employees, stockholders, agents, or directors. The meal may be on or off of the business premises.	50% Deductible	100% Deductible
Meals of Business Leagues	Meals must be directly related and necessary to attendance at IRC § 501(c)(6) organizations (i.e., business leagues, chambers of commerce, real estate boards, and boards of trades), and the organization must be tax exempt under IRC § 501(a).	50% Deductible	100% Deductible
Food Offered for Free to the General Public		100% Deductible	100% Deductible
Club Memberships	This includes memberships in clubs organized for business, pleasure, recreation, or other social purpose, which include social, athletic, or sporting clubs and organizations.	Non-Deductible	Non-Deductible
Company Event (e.g., holiday parties or company picnics)	This includes recreational, social, or similar activities primarily for the benefit of employees.	100% Deductible	100% Deductible

Expense Description	Notes	General Rule	Purchased from a Restaurant 2021 - 2022
Sporting Event Tickets and Skyboxes	Previously, 50% of the face value of the ticket or skybox (to the extent of the face value of a non-luxury seat ticket in such box) was deductible.	Non-Deductible	Non-Deductible
Charitable Sporting Event Tickets		Non-Deductible	Non-Deductible
Charitable Contributions Made to Educational Institutions for the Right to Purchase Sports Tickets	Previously, these payments were 80% deductible as charitable contributions (not meals and entertainment).	Non-Deductible	Non-Deductible
Meals Included With a Ticket to a Entertainment Event	If the meals are included, and not separately stated, from the cost of the entertainment.	Non-Deductible	Non-Deductible
Meals Purchased at an Entertainment Event	These meals must be separately stated from the entertainment on the bill, invoice, or receipt.	50% Deductible	100% Deductible

