



Fully deduct business meals this year

The federal government is helping to pick up the tab for certain business meals. Under a provision that's part of one of the COVID-19 relief laws, the usual deduction for 50% of the cost of business meals is doubled to 100% for food and beverages provided by restaurants in 2022 (and 2021).

So, you can take a customer out for a business meal or order take-out for your team and temporarily write off the entire cost — including the tip, sales tax and any delivery charges.

Basic rules

Despite eliminating deductions for business entertainment expenses in the Tax Cuts and Jobs Act (TCJA), a business taxpayer could still deduct 50% of the cost of qualified business meals, including meals incurred while traveling away from home on business. (The TCJA generally eliminated the 50% deduction for business entertainment expenses incurred after 2017 on a permanent basis.)

To help struggling restaurants during the pandemic, the Consolidated Appropriations Act doubled the business meal deduction temporarily for 2021 and 2022. Unless Congress acts to extend this tax break, it will expire on December 31, 2022.

Currently, the deduction for business meals is allowed if the following requirements are met:

- The expense is an ordinary and necessary business expense paid or incurred during the tax year in carrying on any trade or business.
- The expense isn't lavish or extravagant under the circumstances.
- The taxpayer (or an employee of the taxpayer) is present when the food or beverages are furnished.
- The food and beverages are provided to a current or potential business customer, client, consultant or similar business contact.

In the event that food and beverages are provided during an entertainment activity, the food and beverages must be purchased separately from the entertainment. Alternatively, the cost can be stated separately from the cost of the entertainment on one or more bills.

So, if you treat a client to a meal and the expense is properly substantiated, you may qualify for a business meal deduction as long as there's a business purpose to the meal or a reasonable expectation that a benefit to the business will result.

Provided by a restaurant

IRS Notice 2021-25 explains the main rules for qualifying for the 100% deduction for food and beverages provided by a restaurant. Under this guidance, the deduction is available if the restaurant prepares and sells food or beverages to retail customers for immediate consumption on or off the premises. As a result, it applies to both on-site dining and take-out and delivery meals.

However, a "restaurant" doesn't include a business that mainly sells pre-packaged goods not intended for immediate consumption. So, food and beverage sales are excluded from businesses including:

- Grocery stores,
- Convenience stores,
- Beer, wine or liquor stores, and
- Vending machines or kiosks.

The restriction also applies to an eating facility located on the employer's business premises that provides meals excluded from an employee's taxable income. Business meals purchased from such facilities are limited to a 50% deduction. It doesn't matter if a third party is operating the facility under a contract with the business.

Keep good records

It's important to keep track of expenses to maximize tax benefits for business meal expenses.

You should record the:

- Date,
- Cost of each expense,
- Name and location of the establishment,
- Business purpose, and
- Business relationship of the person(s) fed.

In addition, ask establishments to divvy up the tab between any entertainment costs and food/beverages.