



When can you deduct business meals and entertainment?

You're not alone if you're confused about the federal tax treatment of business-related meal and entertainment expenses. The rules have changed in recent years. Let's take a look at what you can deduct in 2024.

Current law

The Tax Cuts and Jobs Act eliminated deductions for most business-related entertainment expenses. That means, for example, that you can't deduct any part of the cost of taking clients out for a round of golf or to a football game.

You can still generally deduct 50% of the cost of food and beverages when they're business-related or consumed during business-related entertainment.

Allowable food and beverage costs

IRS regulations clarify that food and beverages are all related items whether they're characterized as meals, snacks, etc. Food and beverage costs include sales tax, delivery fees and tips.

To be 50% deductible, food and beverages consumed in conjunction with an entertainment activity must: be purchased separately from the entertainment or be separately stated on a bill, invoice, or receipt that reflects the usual selling price for the food and beverages. You can deduct 50% of the approximate reasonable value if they aren't purchased separately.

Other rules

Per IRS regulations, no 50% deduction for the cost of business meals is allowed unless:

1. The meal isn't lavish or extravagant under the circumstances.
2. You (as the taxpayer) or an employee is present at the meal.
3. The meal is provided to you or a *business associate*.

Who are business associates? They're people with whom you reasonably expect to conduct business — such as established or prospective customers, clients, suppliers, employees or partners.

IRS regulations make it clear that you can deduct 50% of the cost of a business-related meal for *yourself* — for example, because you're working late at night.

Traveling on business

Per IRS regulations, the general rule is that you can still deduct 50% of the cost of meals while *traveling on business*. The longstanding rules for substantiating meal expenses still apply.

Message: keep receipts.

IRS regulations also reiterate the longstanding general rule that no deductions are allowed for meal expenses incurred for spouses, dependents, or other individuals accompanying you on business travel. (This is also true for spouses and dependents accompanying an officer or employee on a business trip.)

The exception is when the expenses would otherwise be deductible. For example, meal expenses for your spouse *are* deductible if he or she works at your company and accompanies you on a business trip for legitimate business reasons.

100% deductions in certain situations

IRS regulations confirm that some longstanding favorable exceptions for meal and entertainment expenses still apply. For example, your business can deduct 100% of the cost of:

- Food, beverage, and entertainment incurred for recreational, social, or similar activities that are primarily for the benefit of all employees (for example, at a company holiday party);
- Food, beverages, and entertainment available to the general public (for example, free food and music you provide at a promotional event open to the public);
- Food, beverages and entertainment sold to customers for full value;
- Amounts that are reported as taxable compensation to recipient employees; and

- Meals and entertainment that are reported as taxable income to a non-employee recipient on a Form 1099 (for example, a customer wins a dinner cruise for ten valued at \$750 at a sales presentation).

In addition, a restaurant or catering business can deduct 100% of the cost of food and beverages purchased to provide meals to paying customers and consumed at the worksite by employees who work in the restaurant or catering business.

Bottom line

Business-related meal deductions can be valuable, but the rules can be complex. Contact us if you have questions or want more information.