

O'NEIL & STEINER, PLLC

BUSINESS MEALS & ENTERTAINMENT

Entertainment The Tax Cuts and Jobs Act (TCJA) eliminated the deduction for business entertainment. Entertainment includes expenses paid for tickets to sporting events, stadium license fees, private boxes at sporting events, theater tickets, etc.

An exception to the entertainment rule exists if the entertainment expenses are for the benefit of your employees. A common example is a company Christmas party held at a venue typically associated with entertainment. These expenses are still deductible if the expense is for the benefit of the employees, not the company, its clients, or customers. To qualify the business must not discriminate in favor of ownership or highly compensated employees.

Memberships: Memberships are also not deductible. This is true for any club or group organized for business, pleasure, recreation, or any other social purpose. This includes golf clubs, social clubs, hotel clubs, airline clubs, exercise gyms, or any other social purpose.

An exception to the rule against memberships deductibility exists for the following unless one of the main purposes is to conduct entertainment activities for members or their guests, or to provide members or their guests with access to entertainment facilities:

- Boards of trade
- Business leagues
- Chambers of commerce
- Civic or public service organizations
- Professional organizations such as bar association or medical associations
- Real estate boards
- Trade associations

Meals: In order to be deductible meals must fall into one of two categories:

50% Meals Deduction - Meals are still granted a 50% deduction if the expense was (1) directly related to, or (2), in the case of an item directly preceding or following a substantial and bona fide business discussion, associated with the active conduct of the taxpayer's trade or business or income-producing activity. An owner or employee must be present at the meal.

***Note: After 2025, expenses for meals provided to employees for the convenience of the employer will be completely disallowed. This includes break room snacks/drinks and meals furnished on or off-site for employees working through lunch, etc. where no strategic meeting occurred.**

100% Meals Deduction - Some expenses that fall into a category below are 100% deductible:

- Social or Recreational event like a company picnic where food is provided for the employees' benefit only. Entire staff must be invited, not limited to managers/owners.
- Food made available for free to the public. Food and/or drinks in a waiting room for example.
- Meals passed on to employees as wages on Form W-2, passed on to independent contractors on Form 1099-Nec, or billed separately to clients/customers at or above cost.