



ROUTE 422 BUSINESS TAX PLANNING AND PREPARATION SERVICES GUIDE

BUSINESS MEALS AND ENTERTAINMENT DEDUCTIONS EXPLAINED

Traditionally, the IRS has allowed a deduction of up to 50 percent of qualifying meals and entertainment expenses for business purposes. When the Tax Cuts and Job Act (TCJA) was originally passed, it seemed to many that both the business meal expenses and entertainment deductions were eliminated. However, the IRS issued guidance (Notice 2018-76) clarifying the deductibility.

Business Meals:

Under prior law, taxpayers could deduct 50 percent of meal expenses that directly met the related or business discussion exceptions

under Section 274 of the Internal Revenue Code. Under TCJA there was some confusion regarding the business meals deduction. After the IRS clarified the deductibility of meals and entertainment, the IRS issued Notice 2018-76 to provide some guidance on the deduction. The notice states, "Allowable meal expenses remain deductible, subject to the 50 percent limitation in Section 274(n)(1)." Therefore, the meal deduction remains intact post-TCJA if the following requirements outlined in Notice 2018-76, are met:

- The expense is an ordinary and necessary expense under § 162(a) paid or incurred

during the taxable year in carrying on any trade or business;

- The expense is not lavish or extravagant under the circumstances;
- The taxpayer, or an employee of the taxpayer, is present at the furnishing of the food or beverages;
- The food and beverages are provided to a current or potential business customer, client, consultant, or similar business contact; and
- In the case of food and beverages provided during or at an entertainment activity, the food and beverages are purchased sep-

arately from the entertainment, or the cost of the food and beverages is stated separately from the cost of the entertainment on one or more, bills, invoices, or receipts.

With the provision provided by Notice 2018-76, the 50% deduction for business meals will still be effect in 2018 and later years.

Entertainment:

Prior to 2018, businesses could deduct up to 50% of entertainment expenses directly related to the operations of the business. However, unlike the business meals deduction, the deduction for entertainment, amusement,



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or recreation expenses was generally eliminated by the TCJA. The Treasury defines entertainment as the following, "an activity of a type generally considered to constitute entertainment." Examples of entertainment provided by the Treasury include entertaining at night clubs, cocktail lounges, theaters, country clubs, golf and athletic clubs, and sporting events. As with much of the TCJA, there was some confusion as to what exactly "is a deductible and non-deductible expense".

Once again, Notice 2018-76 comes into play. The Notice clears up some initial confusion regarding the entertainment deduction. Any expense that falls under the category of "entertainment" as listed above is considered non-deductible. However, "entertainment" does not include the following:

- Dinner money provided by an employer to employee working overtime;
- A hotel room maintained by an employer for lodging of employees while in business travel status; and
- An automobile used in the active conduct of trade or business even though also used for routine personal purposes such as commuting to and from work.

This provides some clarity for the entertainment deduction, but there still seems to be some confusion relating to meals provided during entertainment events.

Meals During Entertainment

Generally, meals that are provided during entertainment events are allowed and deductible if the following conditions are met:

- The food and beverages are purchased separately from the entertainment;
- The cost of the food and beverages is stated separately from the cost of the entertainment on one or more, bills, invoices, or receipts.

Following the guidelines set forth in Notice 2018-76 will contribute to taking full advantage of the new business meals and entertainment deduction rules set forth by the TCJA. A downloadable table with examples is available at www.herbein.com.



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HOW TO FIND THE RIGHT ACCOUNTANT FOR YOUR SMALL BUSINESS

Your business success depends on many factors. Managing your money well and understanding your finances are two of the most critical. Unless you are an accountant by trade, it is likely you will need some outside guidance and insight as you start and grow your company.

Getting help from an accountant can benefit your business in a number of ways:

- An accountant can inform you of legitimate ways to reduce your tax liability.
- An accountant can ensure you are aware of reporting requirements and deadlines. (If you are not in compliance, you might have to pay fines.)
- An accountant can assist you in filing your taxes (saving you time and sparing you headaches).
- An accountant can provide suggestions that might help you run your business more profitably.

Just as when you contract any other type of professional to help you move your business forward, you should be choosy when selecting an accountant.

Your first step should be to build a short list of accountants that you would consider 'partnering' with, because that is exactly what you are doing by hiring a business accountant.

SCORE suggests your list only include accountants and accounting firms that meet the following criteria:

- They have experience in your line of business.
- They reside in your state and/or city.
- They come highly recommended by someone or some source that you trust.
- They are large enough to handle your business requirements in a timely manner, BUT not too large to get to know you and your business on a personal level.
- They do tax work as well as weekly/monthly/quarterly/yearly reporting, according to acceptable accounting practices.

From this short list, you should set up interview meetings with each. For the interviews, you should develop a list of items, by which you wish to judge each candidate. Also apply a simple grading scheme to give candidates a score of 1-3 or 1-5 for each criterion. Include "price for service" among the judging criteria, but do not make it the number one factor when deciding on which accountant to hire. After all interviews are completed and all grading is reviewed, your top choices should be apparent.

If you need help creating your list of potential accountants, consider asking your local SCORE chapter or chamber of commerce for names of reputable professionals within your community.

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