

## Accounting For Meals and Entertainment

Creating new and separate general ledger accounts to categorize the different levels of deductibility is going to be the best practice in accounting for these changes.

1. The time it takes to sort through and separate account detail on the back end will cost the business in tax preparation fees and headaches for all involved. It will likely take more time to sort through information that may not be labeled in a clear manner. And documentation may not have been kept if processes were not in place to properly track and account for the various types of activities.
2. The cost of potential lost deductions for not having properly separated deductible from nondeductible items. Certain costs are either 100% deductible, 50% deductible, or not deductible at all for tax purposes. Understanding the differences will be beneficial and result in the largest deductions if properly tracked.
3. Imagine the company gets audited by the IRS. One of the most common places for an auditor to look is in the meal and entertainment accounts for misrepresented items. If a business is not taking the time to properly account for these simple things, it could lead the agent to believe there are other areas to review. Also, if there is any question on the deductibility of an activity, the expense will likely be disallowed.

Here is a summary of the available deductions for various meal and entertainment activities; consider suggesting the creation of separate accounts based on these categories. It's important to take inventory of the company's expense categories and build processes and accounts to encompass them. After creating the proper accounts, it's equally important to advise the training of accounting staff and employees who may be involved in these activities to appropriately separate expenses into these accounts.

Expense Category	Deductible Amount	Tax Guidance
Company social events and facilities for employees (e.g., picnics, holiday parties, company golf course)	100%	IRC Secs. 274 (e)(4) and 274(n)(2)(A)
Meals and entertainment included in employee or nonemployee compensation	100%	IRC Secs 274 (e)(2) and (9)
Reimbursed expenses under an accountable plan	100%	IRC Sec. 274 (e)(3)
Meals and entertainment made available to the public	100%	IRC Sec. 274 (e)(7)
Meals and entertainment sold to customers	100%	IRC Sec. 274 (e)(8)
Business travel meals	50%	IRC Sec. 274 (n)(1)
Client/customer business meals	50%	Notice 2018-76
Business meeting meals	50%	IRC Secs. 274 (e)(5), 274 (k)(1), and 274 (e)(6)
<i>De minimis</i> food and beverages provided in the workplace (e.g., bottled water, coffee, snacks)	50%	IRC Sec. 274 (e)(1)
Meals provided for the convenience of the employer (before 2026)	50%	IRC Sec. 274(n)
Employer-operated eating facilities (before 2026)	50%	IRC Sec. 274 (n)
Nonseparately stated meals/beverages associated with entertainment activities	N/D	Notice 2018-76
Meals provided for the convenience of the employer (After 2025)	N/D	IRC Sec. 274(o)
Employer-operated eating facilities (after 2025)	N/D	IRC Sec. 274(o)
Personal, lavish, or extravagant meals/beverages in relation to the activity	N/D	IRC Secs. 274 (k)(1), and (2)
Entertainment without an exception	N/D	274 (a)(1), and (e)