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MEMORANDUM

Date: February 5, 2018
To: All business clients
From: Ed Rand
Subject: Entertainment expenses

The recently enacted Tax Cuts and Jobs Act has made business entertainment expenses incurred after December 31, 2017 nondeductible. Specifically, this applies to “any item with respect to an activity which is of a type generally considered to constitute entertainment, amusement, or recreation, or... with respect to a facility used in connection with an activity referred to [above]”. Previously, most meals and entertainment expenses were subject to a 50% disallowance, and our advice was to capture these expenses in a single account on your chart-of-accounts named “Meals and Entertainment”.

Now our advice has changed. Instead of one account, we recommend at least two, and perhaps more if some of the exceptions fit your situation. The following accounts are recommended if applicable to your business:

Entertainment

This account should represent all expenses subject to the new 100% disallowance. These would include meals, the primary purpose of which is to entertain customers, prospective customers or others, plus all other entertainment expenses such as sports tickets, golf outings, theater tickets, and similar entertainment events, club dues and entertainment facilities.

Meals - 50% deductible

This account should represent meals the primary purpose of which is not entertainment. These would include business travel meals and meals provided at working meetings. This category specifically excludes any meal that is “lavish or extravagant under the circumstances”.

Meals – 100% deductible

This would include certain meals that are not subject to the 50% rule, the primary example being meals that are reimbursed by a third party, such as billable travel meals.

There are other exceptions to the above rules, such as recreational expenses for rank-and-file employees, food furnished on premises for employees, and meetings of employees, stockholders, agents, or directors. There are also exceptions for specific industries' workers such as certain transportation and oil & gas workers. So when in doubt, please consult with us about the details.