

Business Owners: Deducting the Costs of Qualifying Meals, Entertainment, and Gifts

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As a small-business owner, you know that you can easily rack up a considerable amount in expenses over the course of the year dining with and entertaining clients, colleagues, and partners. Then there's hosting "free" seminars or presentations for prospective clients. And feeding your employees (for example, *donuts and coffee for a morning meeting or pizza and soft drinks for a team that's working overtime on a project*). You may even have additional expenses related to gifts presented to customers and vendors to show your appreciation for their business and efforts on your behalf.



All this is money *leaving* the business and not going into *your* pocket, so it should be deductible, right? Yes, it is, but just how deductible it is depends on the context in which that money is spent and who received the benefit.

In this *SWC singlette*, we break down business deductions for meals, entertainment, and gifts, to ensure that you're taking full advantage of what the government allows, taking care to not do something that may prompt the government to question any of your deductions.

Deducting the Cost of Meals Out

If you're in a business such as management consulting, marketing services, insurance, or personal finances, you likely spend considerable time meeting with clients over lunch, coffee, or drinks. In other businesses, you may meet with partners or colleagues to discuss plans for business ventures or projects you're currently working on together. As long as meals you pay for under either of those scenarios are for a legitimate business purpose – with existing clients, new business prospects, and business colleagues such as vendors you work with – they're deductible.

Costs for business meals (food and beverage) are generally deductible up to 50 percent, but expenses must meet the following conditions:

- Business meals must be “ordinary and necessary”
- The meal must not be “lavish or extravagant”
- An owner or employee of the business must be present at the meal
- If the meal is part of an entertainment event, only the cost of the meal is deductible

Since the United States government (*i.e.*, *the Internal Revenue Service*) assumes you have to eat – whether it's home or out with a business client – you may not deduct the entire cost of the meal. But they are willing to meet you halfway – literally. This deduction includes costs for the following:

- Food and drinks
- Taxes
- Tips (believe it or not – including for valet parking)

In case you're wondering, you generally can't deduct the cost of meals you eat with your spouse unless you're traveling together for business. However, the cost of a spouse or other “closely connected” person can be included if your guest brings *their* spouse.

While documenting expenses sounds like a stressful practice, you'll be glad to know that you do not need to keep and record receipts for expenses under \$75. However, you will need to record five pieces of information related to those expenses:

- Date of the expense
- Location of where the expense occurred
- Cost/receipt
- Purpose of the meal/meeting
- Names/occupations/positions of people attending the meeting/meal

Also, you can deduct off-premises meals you pay for as part of required business meetings. For example, if you take your employees out to lunch to discuss an upcoming project.

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Entertaining at Home

If you entertain at home and discuss business during such occurrences, you may be able to deduct those meals, too. At the end of the day, there's no requirement that you must eat out to deduct the cost of a business meal. With that in mind, don't forget to deduct the costs of eating with and entertaining guests at home for business purposes. If you have up to 12 guests, you'd use the same rules as if you were eating out. If you have more than 12 guests in your home, you can deduct "reasonable" costs, but only if your primary purpose of your in-home gathering is business.



Hosting Promotional Seminars and Presentations

If you host promotional seminars or presentations to market your products or services, don't make the common mistake of claiming those events as meal and entertainment expenses. These are marketing expenses and are 100 percent deductible. For example, if you're an attorney hosting a seminar on estate planning at a boutique hotel, you can write off the entire bill.

Note: You used to be able to deduct entertainment expenses for items such as sporting events, movie theatre tickets, and musical concerts, if they took place directly before or after substantial discussions directly related to the focus of your business. Back in the day, you could deduct the face value of tickets to events, food and drinks, parking, taxes, and even allowable tips.

That is, you *could*, meaning now you *can't*. The Tax Cuts and Jobs Act of 2017 eliminated that deduction.

Other 100% Deductible Meal Expenses

The costs for hosting promotional seminars and presentations aren't the only 100 percent deductible meal expenses. Other meal expenses that fall in this category include the following:

- Business holiday parties and company picnics
- Office snacks provided for employees
- "Working lunches" and other meals – for example, to reward employees for working late or on weekends for the employer's benefit
- Meals included as part of a contractor's compensation

Deducting the Cost of Business Gifts

Curious about business gifts? Gifts for *business associates* (a person or entity that performs certain functions or activities that is for the benefit of your business) are deductible up to \$25 per person annually, *if* you can show a business purpose for the expense or business-related benefit to be gained by your business. This includes your family and friends if they qualify as genuine clients, prospects, or referral sources. (Married couples count as one person for this rule – meaning, you can't deduct \$25 for each.) Finally, keep these other gifting rules in mind:

- When presenting a gift to a group of recipients, such as the staff of an office, you can deduct \$25 for each member of the group.
- Promotional items such as branded pens and mugs with a value up to \$4 each, are deductible as advertising expenses and don't count against the \$25 per person annual limit for business gifts.
- Gifts are nontaxable to the recipient.

As a small-business owner, you're responsible for tracking your income and tax-deductible expenses, including expenses for meals, entertainment, and gifts, along with all the tax-deductible expenses. You then have the added obligation each quarter of estimating your income, expenses, and net profit and calculating what you owe in estimated taxes to federal, state, and local governments.

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