

# How to Maximize Your Business Meal Tax Deductions



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## INTRODUCTION

# How to Maximize Your Business Meal Tax Deductions



When it comes to business-related tax deductions, one of the most confusing areas is whether business owners can deduct the cost of their own meals on their next tax filing. Only questions about auto expenses are more frequent, and we covered that issue in our last Business Brief ([Maximizing Your Business Auto Deductions](#)).

But with meal tax deductions, we've been asked about it so often that we're starting to wonder if people are running businesses or just looking for a way to expense their sushi habit!

In most cases, the U.S. Federal Tax Code allows businesses (including small businesses and the self-employed) to deduct 50 percent of the cost of meals directly related to business activities. These include meals with clients, business partners, and so on for business-related purposes.

However, in some cases, businesses are allowed to deduct 100 percent of the cost of a business meal and beverages. If you're not taking advantage of these exceptions to the rule, you're just leaving money on the restaurant table.

In this SWC Business Brief, we review the basic rules and then highlight the notable exceptions that can save you money.

### IRS Rules for Deducting Meal and Entertainment Expenses

Generally, the following rules apply to tax deductions for business meals and entertainment:

- The expense must be *ordinary* (common and accepted in your industry) and *necessary* (helpful and appropriate for your business).
- The meal or entertainment must be related directly to your business or associated directly with a business activity. For example, a meeting, negotiation, transaction, or business discussion during the meal.
- You can deduct 50 percent of the cost of meals directly related

to business activities (for example, meals with clients or business partners). The 50 percent limit applies to the cost of meals and beverages and includes tax and tips and other charges, such as parking and private room rental.

- You can deduct 50 percent of the cost of free food and beverages made available to employees in a break room or similar setting.
- You can deduct 50 percent of the cost of food and beverages provided for the benefit of all employees attending a sales conference or continuing education event.
- Following passage of the Tax Cut and Jobs Act of 2017, entertainment expenses (such as those for golf outings, sporting events, concerts, and performances) for business purposes are no longer deductible. However, the cost of food and beverages at such events is deductible (again, limited to 50 percent of the cost).
- If the cost of the meal is deemed lavish or extravagant, the deduction may be reduced under IRS scrutiny.
- To claim your deduction, you must provide documentation that includes the following details:
  - The amount of the expense
  - The date and location of the meal
  - The business purpose of the meal
  - The people involved and their relationship to the business
  - Receipts for any expenses over \$75



**Note:** Beginning Jan. 1, 2026, unless the rule is extended or repealed, the cost of meals furnished on the employer's premises for the convenience of the employer (such as pizzas ordered for those working past their normal hours) may no longer be deductible.

### Exceptions to the Rules: Qualifying for a 100 Percent Deduction

Under certain conditions, the entire cost of a meal is fully (100 percent) deductible, including the following situations:

- The expense is for a social gathering the business hosted that is open to all employees regardless of their compensation level. Business-related social gatherings include holiday parties, summer picnics, and banquets honoring employee milestones or retirements.
- The expense is for meals and beverages the business provides to the general public as a promotion or goodwill to entice and encourage

sales. In these cases, the promotional meals qualify as fully deductible advertising expenses. Here are a few examples:

- Offering complimentary food and beverages at concerts, entertainment venues, or sporting events.
  - Providing free food and wine tastings at a local art fair.
  - Serving beverages and snacks at open houses hosted by realtors or art dealers.
- Your business involves entertainment, amusement, recreational, or travel activities that ultimately produce income for you. For example, you make your living writing a travel blog and posting reviews of various restaurants, entertainment venues, and travel services. The expenses you incur for meals, entertainment, and travel that you can show are directly related to your income generation are fully deductible as ordinary and necessary business expenses.
  - The cost of the meals and beverages is allocated to employees as a payment of fringe benefits and is included in the employee's W-2 wage statement as taxable income. In other words, the value of the meals and beverages are part of the employee's compensation. Note that the employee doesn't need to take advantage of the fringe benefit for the business to claim a deduction for its value. Also, the value of the meals and beverages are subject to the employer's share of FICA payroll tax withholding. For independent contractors, if the business owner includes the cost of the meal in the 1099 income statement of the contractor, then the business owner can fully deduct the meal.
  - The cost of the meals and beverages qualify as *de minimis fringe benefits*, meaning the value of the meal and the limited frequency of providing it to the workforce as a whole would make accounting for it unreasonable or administratively impracticable. Examples of fully deductible de minimis fringe meals include occasional social events such as cocktail parties and meeting lunches, or occasional donuts and coffee for employees.



### Third-Party Arrangements

When an individual incurs expenses for entertainment, recreation, food, or beverages while performing services for another party (including an employer) under a reimbursement or expense allowance arrangement. In these cases, limitations on deducting entertainment expenses and the 50 percent cap on food and beverage deductions apply to either the individual or business incurring the expense or the party ultimately bearing the cost, but not to both.

Here's how these arrangements typically work:

1. The independent service provider is reimbursed the full cost of the entertainment and meals, reports that amount as income, and fully deducts it from their income. Note that the costs for entertainment, meals, and beverages must be itemized out from the service work provided on the invoice.
2. The party ultimately bearing the cost reimburses the independent service provider for the full cost of entertainment and meals, deducts 50 percent of the cost of meals and beverages, and claims no deduction for the cost of entertainment.

If the independent contractor has no formal, written agreement with the party ultimately bearing the cost, the contractor is subject to the 50 percent limit for deducting the cost of meals and beverages and is not allowed to deduct entertainment costs.

**Caution:** The IRS will scrutinize abuse of this rule and may disallow full expensing under other provisions of the tax code. For example, if the expenditure is deemed to be a dividend to a shareholder, excessive compensation to an employee, or a personal or non-deductible expense, tax code provisions related to those situations will apply.



If per diem expenses are a normal part of your business, consider itemizing meal and entertainment expenses on your invoices to customers and including an express statement on the invoice such as: “[insert customer name] is the party subject to deduction limitations under IRC Sec. 274(d).”

### Additional Rules

Here are a few additional rules that govern the deductibility of meals, entertainment, and gifts:

- Business gifts to clients and customers are fully deductible but limited to \$25 per recipient. So, for example, you can deduct the cost of a ticket to an entertainment event, but your deduction is limited to the lesser of \$25 or the face value of the ticket. The cost of your ticket to the event isn't deductible even if you attend for business purposes.
- Business gifts to employees are taxable fringe benefits (included as part of the employee's income) and are fully deductible by the employer, subject to limits; generally, \$400 per employee for certain achievement awards.

- Occasional employee gifts of nominal value distributed to employees as goodwill qualify as de minimis fringe benefits (discussed earlier in this post). They are fully deductible by the employer and not included in the employee's income.

Here at SWC, we're committed to empowering our clients with tax-planning and wealth-building strategies. Whether you're a business owner, self-employed contractor, or employee, we can help you minimize your taxes while maximizing your wealth all while accelerating your progress toward achieving your personal, professional, and financial goals. Contact us to schedule a consultation.

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