

Accounting For Meals and Entertainment

With IRS Notice 2021 – 25 the following guidance is recommended. Clients should consider creating new and separate general ledger accounts to categorize the different levels of deductibility for Meals and Entertainment.

1. Create Separate Accounts:
 - 100% Meals and Entertainment
 - 50% Meals and Entertainment
 - Non-Deductible Meals and Entertainment
2. 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.
3. 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.

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

Amount Deductible for Tax Years 2021 - 2022

Example Situations	100%	50%	Zero
Restaurant meals with partners, clients and prospects	X		
Entertainment such as baseball and football games with clients and prospects			X
Employee meals for convenience of employer, served by in-house cafeteria		X	
Employee meals for required business meeting, purchased from a restaurant	X		
Meal served at a business meeting held in a hotel meeting room	X		
Meal consumed in a fancy restaurant while in overnight business travel status	X		
Meals cooked by you in your hotel room kitchen while traveling away from home overnight		X	
Year-end party for employees and spouses	X		
Golf outing for employees and spouses	X		
Year-end party for customers classified as entertainment			X
Meals made on premises for the general public at a marketing presentation	X		
Team-building recreational event for all employees	X		
Golf, theater, or football game with your best customer			X
Meal with a prospective customer at the country club following your nondeductible round of golf	X		