



Most taxpayers are at least vaguely aware of the tax rule that disallows 50% of their otherwise allowable deductions for business meals. This provision normally applies regardless of the reason for the meal-from taking clients out to dinner to paying for your meals while traveling away from home. What is not nearly as widely known is that there are several exceptions to this onerous 50% disallowance rule. When one of these exceptions applies, you generally get a 100% deduction for the business meal expenses- which might just make even a good meal taste that much better.

Here's a quick run down of the major exceptions to the disallowance rule (we're aware of over a dozen exceptions, but some are very narrowly focused).

- **The Office Coffee Bar.** Employers who provide their employees with free coffee, soft drinks, bottled water, juices, donuts, or similar snacks or beverages to be consumed on the business premises can claim a deduction for 100% of the expense.
- **Employee Parties.** The 50% disallowance rule doesn't apply to the costs of providing food and beverages at recreational, social, or entertainment gatherings primarily for the benefit of rank and file employees (as opposed to highly compensated employees). Examples include company outings (such as a summer picnic) and banquets or other gatherings (such as an annual holiday party) for employees and their guests.
- **Meals Served on the Employer's Premises.** In the right circumstances (which can be fairly difficult to meet), an employer may provide employees with meals at work and claim a full deduction for the costs (without the employees having to report the value of the meals in their income). The key is the meals have to be provided (a) for a valid business reason, (b) on or near your business premises, and (c) primarily for the convenience of the employer (rather than merely as an added fringe benefit for employees).
- **Items Available to the Public.** Expenses incurred for meals made available to the general public are 100% deductible. Examples include free food and beverages at concerts hosted by a shopping mall, free dinners for potential restaurants customers, free hot dogs at a car dealership or hardware store promotion, a free wine and food tasting exhibition sponsored by a liquor dealer, and free hors d'oeuvres furnished by a realtor for a client's open house.
- **Amounts Billed to Clients.** When services are provided as an independent contractor, the service provider can deduct 100% of job-related meal expenses by billing the client separately for these costs. (Obviously this isn't always practical). The client is then stuck with the 50% disallowance rule. If separate billing doesn't occur, the 50% disallowance rule applies to the service provider.
- **Charity Sporting Event.** The allowance deduction for the cost of a ticket to a qualifying charity sporting event isn't reduced by the 50% meal disallowance rule even when meals are included. The ticket package must include admission to the event, but it can also include meals and refreshments. To qualify for this exception, the charitable event must give 100% of its net proceeds to a charity and use volunteers to do almost all the work in the event itself. The classic example is a charity golf tournament with a meal included in the deal.
- **Hours of Service Limitations.** In lieu of the regular 50% disallowance, individuals whose work is subject to the hours of service limitations of the Department of Transportation (e.g., interstate truck drivers, certain air transportation employees, certain railroad employees) can deduct 65% of their business food and beverage expenses in 2002. The deductible percentage will increase five percentage points every two years beginning in 2004, until it reaches 80% in 2008.

As you can see, there are enough exceptions to the 50% disallowance rule that most businesses can meet at least one, if not more of them. To the extent your business qualifies for any of them, it's important that the qualifying expenses be tracked separately (typically by charging them to a separate account in your accounting records) so that a full deduction can be claimed.

If you have any questions regarding the types of business meal expenses that may qualify for a full deduction or how to properly isolate and account for them in your records, please call us so we can help you get to the right answers.