

Q&A: Business Meals & Entertainment Expenses

Q: Do I need to keep receipts for all meals related to my business?

A: It is always best to keep receipts or a log that documents all business meals and entertainment expenses. However, receipts are only required for meal expenses of \$75 or more. The receipt or log should denote the amount, date, place, people entertained, type of entertainment, business purpose, business relationship, and any notes regarding the business discussion that occurred immediately before, during, or immediately after the meal.

Q: Why do I have to keep such detailed documentation if the IRS only allows a 50% deduction for meals and entertainment?

A: Although most business expenses for meals and entertainment are only deductible at 50%, some are fully deductible. The documentation is necessary in the event of an audit. Lack of documentation could cause the expense to be 0% deductible.

Q: Which meals and entertainment expenses are 50% deductible?

A: Those meals and entertainment expenses for which the following are true:

- Entertainment of clients or customers.
- Business travel away from home.
- Attendance at business conventions, meetings, or luncheons.

Q: Which meals and entertainment expenses are 100% deductible?

A: The following must be met to be 100% deductible.

- Meals provided to employees related to social or recreational activities. For example, a company Christmas party, annual picnic, or retirement provided that they include a nondiscriminatory class of employees.
- Meals provided to employees for the convenience of the employer. Typically these include those meals provided due to short lunch periods, unavailability of nearby eating facilities, necessity of employees being available at all times for emergency phone calls, and meals furnished to food service employees during and immediately before or after their working hours.
- Meals provided to employees immediately after working hours that would have been provided during working hours for a business purpose, except that work duties prevented employees from eating during working hours.
- If a meal is provided to more than half of the employees for the employer's convenience, the employer can then deduct meals provided to all employees at 100%.
- "De minimis" fringe benefits meals. This includes meals that are provided infrequently or cost so little that it is not worth the time spent to fully account for them. Examples would be an occasional meal or meal money provided to employees who work late hours or perform work-related duties outside the normal workday, or coffee, and doughnuts.
- Under the de minimis rule, 100% deductibility may also be allowed for meals provided to "promote goodwill, boost morale, or attract prospective employees."
- Meals provided to several prospective clients at one time at which a marketing presentation is made.