

WHAT YOU NEED TO KNOW ABOUT DEDUCTING MEALS AND ENTERTAINMENT

Many business owners make a mistake that can cost them a fortune during an audit – they deduct every dinner, sporting event, theater ticket that involves a client or potential client.

Below are main points you need to know about M&E deduction:

▶ Ordinary and Necessary Expense

Meals and entertainment expenses must be ordinary and necessary.

▶ Meals and entertainment must meet either **Directly-Related or Associated test**.

▶ Only 50% Is Deductible

There are a few exceptions to this rule (ex: reimbursed expenses) but, generally, only 50% of the \$\$ you spend on meals and entertaining will be deducted on your business tax return.

▶ Keep Detailed Records In Case You Get Audited

Your expenses should be written and include the following:

- Account book, diary, log, statement of expense or similar records that will support each expense you are writing off
- Receipts, canceled checks, bills if the expense is over \$75
- Your written evidence should show amount, date, place, and essential character of the expense.

*For example, a restaurant receipt will be sufficient if it shows the name and location of the restaurant, the number of people served, and the date and amount of the expense. I also recommend my clients to write on the check what the business purpose of a meal was and who was present. **I cannot stress this enough**, please keep all the receipts for meals and entertainment. Put it in a separate envelope and organize them at least once a month (write business purpose and scan) to protect yourself in case of an audit and make your life easier.*



ORDINARY

An expense is ordinary if it is normal, common, or customary for a particular activity.



NECESSARY

An expense is necessary if it is appropriate and helpful to your business.

Your ordinary and necessary business expense should also be reasonable.



DIRECTLY-RELATED

The main purpose of the event or dinner you are writing off is active conduct of business, i.e. you were discussing a particular deal during the event or dinner, you expected this event or meal to bring you \$\$ in the future. And guess what, meetings at nightclubs, sporting events, theaters, hunting and fishing trips will generally be disallowed.



ASSOCIATED

You can show that you had a clear business purpose of establishing a new business or promoting existing business relationship during the event or meal. Does it sound vague to you? It does to me. Good luck showing that purpose to the IRS audit agent.



IRYNA STEPANCHUK
CERTIFIED PUBLIC ACCOUNTANT

Questions? **CONTACT US!**

📍 155 Water Street, Brooklyn, NY 11201

☎ 347-731-5555

✉ iryna@stepanchukcpa.com

🌐 <http://stepanchukcpa.com>