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entertainment expenses, if those expenses were properly substantiated. This included entertainment that was "directly-related" to or "associated with" the business.

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Ending months of speculation, the IRS has issued new guidance that allows business deductions for certain business meals, despite restrictions imposed by the new Tax Cuts and Jobs Act (TCJA) on entertainment expenses (IRS Notice 2018-76, 10/3/18). **The new notice preserves deductions that many tax commentators thought were in doubt.**

Previously, a business taxpayer could deduct 50% of the cost of qualified

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However, the TCJA eliminated deductions for business entertainment expenses, effective in 2018. It was surmised that 50% of the cost of meals while traveling away from home on business remained deductible. But the tax treatment of other business meals wasn't as clear.

Now the IRS has clarified the rules in the new guidance. Under Notice 2018-76, taxpayers may deduct 50% of the cost of business meals if:

- The expense is an ordinary and necessary business expense under Section 162(a) that are paid or incurred during the tax year when carrying on any trade or business;
- The expense is not lavish or extravagant under the circumstances;
- The taxpayer, or an employee of the taxpayer, is present when the food or beverages are furnished;
- The food and beverages are provided to a current or potential business customer, client, consultant or similar business contact; and
- For food and beverages provided during or at an entertainment activity, they are purchased separately from the entertainment, or the cost of the food and beverages is stated separately from the cost of the entertainment on one or more bills, invoices or receipts.

The IRS won't permit the prohibition on entertainment deductions to be circumvented by inflating the amount charged for food and beverages.

To illustrate these rules, the IRS provided three examples when taxpayers attend sporting events with customers. These examples assume that the requirements stated above are met.

Example 1: The taxpayer takes a customer to a baseball game and buys the hot dogs and drinks. The tickets are nondeductible entertainment, but the taxpayer can

deduct 50% of the cost of the hot dogs and drinks purchased separately.

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The IRS expects to publish proposed regulations clarifying when business meal expenses are deductible and what constitutes nondeductible entertainment. Until these proposed regulations take effect, taxpayers can rely on the guidance provided in Notice 2018-76.

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