



Meals and entertainment expenses

Accounting Methods & Credit Services



With 2017 tax reform, Congress took a bite out of the meals and entertainment deduction, but there are still opportunities for 100 percent deductibility. In particular, provisions in the recent stimulus bill allow 100 percent deductibility of business meals purchased from restaurants.

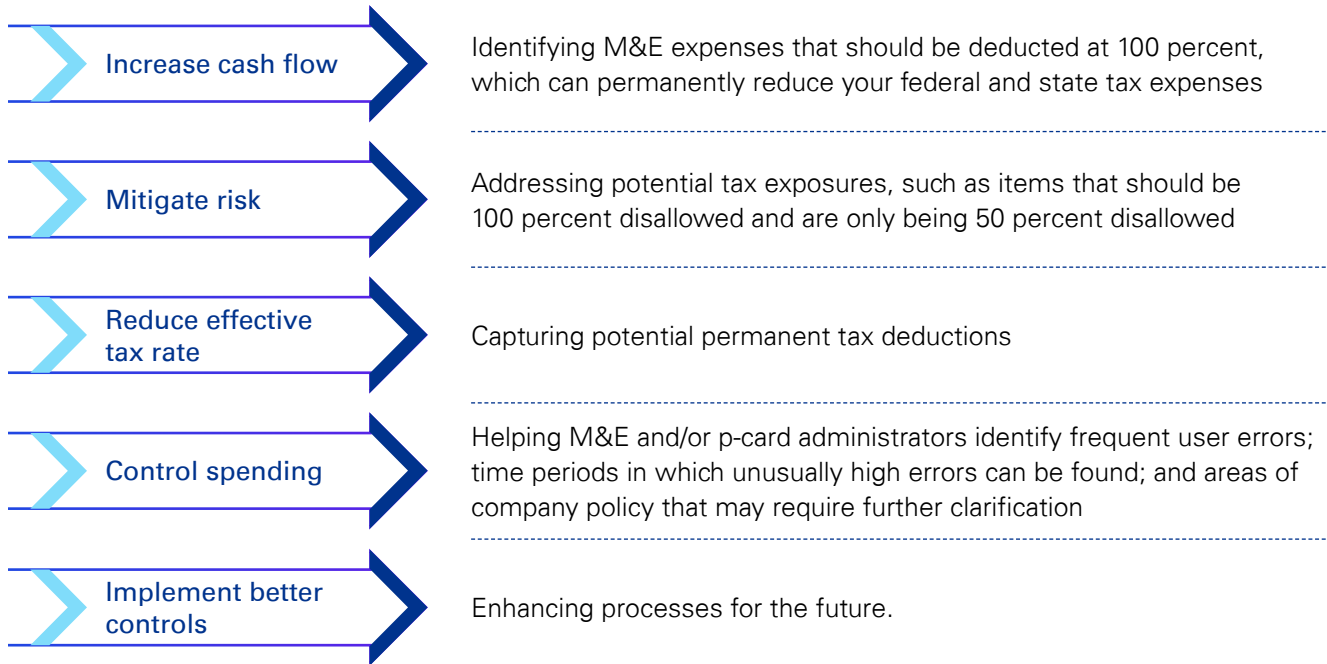
The 2017 US tax legislation limited most of the fully deductible meals and entertainment (M&E) expenses paid or incurred after December 31, 2017. Then, in late 2020, the “Taxpayer Certainty and Disaster Tax Relief Act of 2020,” enacted as part of the “Consolidated Appropriations Act, 2021” (CAA 2021), allows taxpayers a full deduction for business meals purchased from a restaurant during calendar year 2021 or 2022. Taxpayers who have historically disallowed 50 percent of M&E expenses now need to perform an in-depth analysis to identify whether M&E expenses are nondeductible or deductible.

Key changes to the M&E expense laws under the 2017 US tax legislation and 2020 stimulus

Expense type	Pre-tax reform deductibility	Post-tax reform deductibility	Post-stimulus deductibility
Restaurant meals	50%	50%	100%
Entertainment expenses (e.g., golfing, sporting events, and luxury box seats)	50%	0%	0%
Low-value snacks and drinks	100%	50%	100% or 50%
Large group meals	100%	50%	100% or 50%
Meals provided for the convenience of the employer or through an employer-operated eating facility	100%	50% (nondeductible after 2025)	50% (nondeductible after 2025)
Fringe benefits including corporate events, activities, and training meals (fact specific)	Fact specific	Ask KPMG about your current fact pattern	Ask KPMG about your current fact pattern

It all adds up to advantages you can count on

Working with the KPMG Accounting Methods & Credit Services professionals to improve your M&E tax reporting can potentially enhance the following:



Post-tax reform M&E expense deduction spotlight

The KPMG AMCS team possesses a wealth of experience working on M&E reviews for various clients and incorporating legislative and regulatory changes. Post-tax reform, we found that many companies were treating M&E expense deductions as 100 percent deductible based on the titles used in their general ledger. Upon further review, KPMG helped identify miscoded expenses that were nondeductible. Further, using a statistical sampling analysis, we have been able to reduce exposure and improve tracking of nondeductible and fully deductible expenses. We are now assisting several companies in incorporating changes to restaurant meal deductibility as allowed under CAA 2021.



Background on the M&E expense deduction

Entertaining clients and customers is a fundamental cost of doing business. Unfortunately, if M&E deductions are not treated properly, they can end up costing companies thousands, even millions, of dollars more than they should.

In many cases, companies have too few resources. They do not have the people, processes, or technology to classify M&E expenses properly.

What's more, the data they must analyze is often misclassified, incomplete, or even inconsistent with company policy.

This is where KPMG can help. Our Accounting Methods & Credit Services professionals have years of experience helping organizations realize more of the tax advantages from their M&E expenses.

Our team's combination of experience, the latest M&E tax knowledge, data analytics, plus a technology-enabled methodology makes it possible for us to help companies:

- Assess how they apply M&E rules currently
- Identify areas of potential opportunity and exposure
- Design and implement changes to tax processes to take advantage of opportunities, while identifying potential exposures.

Our cross-functional team includes data analysts and economists. These specialists helped make KPMG one of the first to take advantage of proactive data analytics methods and statistical sampling to analyze M&E deductions. This capability translates into an efficient information-gathering process—which means fewer requests to your team for data and information.

The right approach can make all the difference

Discovering the hidden value in your M&E expenses begins with our fully integrated approach. It is an approach designed to help identify potential savings with minimal disruption to you and your staff. Our team's approach includes the following steps:

- 1 Identifying fully tax-deductible M&E expenses that were incorrectly limited to 50 percent deduction
- 2 Employing well-established technology and data analytics
- 3 Using statistical sampling to analyze detailed data more efficiently and in accordance with Rev. Proc. 2011-42
- 4 Conducting three-year statistical samples in accordance with Rev. Proc. 2004-29 to help increase potential tax benefits
- 5 Using a customized access database to gather data and perform tax analysis more efficiently
- 6 Preparing a final deliverable that supports calculations and positions.

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