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Newsletter

Special Edition 2018

Elimination of Entertainment Deduction

As many taxpayers continue to work through application of the new tax laws passed last December, we wanted to focus attention on the changes to the entertainment expense deduction.

Elimination of Entertainment Deduction. The new tax law eliminated business deductions for entertainment. This may come as a big surprise to some businesses. Under prior law, businesses could claim a deduction for entertainment, amusement, or recreation when it satisfied requirements for being directly related to (or, in certain cases, associated with) the active conduct of a trade or business. This is no longer the case.

Businesses may still generally deduct 50 percent of the food and beverage expenses associated with operating their trade or business (e.g., meals consumed by employees during work travel). If meals are combined with entertainment, the meal portion needs to be separately stated in order for the business to deduct the meal expense.

Recommendation. Because of the changes in the tax law, we are strongly recommending that our business clients make adjustments to their accounting systems so that entertainment expenses are tracked separately from meals expenses for all of 2018 and beyond. This might take the form of a second general ledger expense account. By providing a total expense for meals separate from the total expenses of entertainment, you will help to make sure you get the maximum benefit of the deduction remaining under the new laws for these categories. If the meals and entertainment are not split into separate categories, there is some chance that the entirety of the expense will not be claimed on your tax returns and you will lose the remaining allowable deduction portion.

If you have questions regarding this area, please contact our office for further guidance.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We appreciate your referrals.

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