



THE POWER OF BEING UNDERSTOOD

MEALS AND ENTERTAINMENT STUDY

Maximize your deductions and improve your processes

Did you know that some meals and entertainment (M&E) costs are fully deductible because of exceptions to the 50 percent disallowance for meals and the 50 percent disallowance for entertainment before tax reform or the 100 percent entertainment disallowance after tax reform? Does your company have a process in place to accurately classify M&E expenses to maximize the allowable deduction?

A review of your M&E expenses can help ensure you are making the most of your business expense deductions. While section 274(n) generally requires a company's M&E expenses be limited to a 50 percent deduction for expenses incurred through 2017 and section 274(a) provides for a full disallowance of entertainment expenses starting in 2018, there are exceptions to this rule that allow for a 100 percent deduction for certain expenses. Evaluating your M&E expenses and determining which are fully deductible are important steps in potentially reducing your taxable income.

RSM can assist in preparing an M&E study to:

- Maximize the deductions for M&E expenses
- Identify improvements to your current accounting policies and procedures that could result in increased tax benefits going forward

Most studies reclassify 20 to 30 percent of expenses to be fully deductible. We can make it easy with sampling. RSM uses IRS-approved statistical sampling to make this efficient, affordable and accurate. For example, a taxpayer with 60,000 expense items may be able to sample 150 items to determine the deductible amount.

RSM's process includes:

- Developing a sample that meets IRS requirements under Rev. Proc. 2011-42
- Analyzing supporting details and making a determination on the correct treatment of each item
- Extrapolating results to calculate the adjustments to taxable income
- Developing revisions to policies and procedures for M&E expenses to help you maximize future benefits

Examples of benefits before tax reform:

- Current annual disallowance for M&E expenses – \$1 million
- Effective corporate tax rate – 40 percent
- Percentage of expenses reclassified as fully deductible – 30 percent
- Recurring annual cash benefit of \$120,000

Example of benefits after tax reform:

- Current annual disallowance for M&E expenses – \$1.2 million
- Effective corporate tax rate – 26 percent
- Percentage of expenses reclassified as fully deductible – 30 percent
- Recurring annual cash benefit of \$93,600

RSM can perform a study to analyze your company's current M&E expense-related processes and determine what changes need to be implemented in order to be in compliance with the new tax law. A study can ensure the correct policies are in place and operating properly.

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