Business Meals: Planning Assures Healthy Write-offs

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Business owners often dine out with their customers or associates. So long as they meet certain requirements, employers can deduct 50% of the tab.

Strategy: Owners should schedule meals to coincide with business meetings. That way, some nondeductible expenses can be converted into deductible expenses. The two basic types of deductible meal expenses are:

1. Directly-related expenses: To qualify, the business owner must have arranged the meal for business reasons, actually discussed business during the meal and have more than a general expectation that the cost of the meal will generate a business benefit. Taking out a customer just for goodwill isn't good enough.

2. Associated-with expenses: The meal must follow or precede a substantial business discussion. Although there's no specific time restraint, the overall character of the events should be business related. So a owners can't spend a couple of minutes shooting the breeze about vague business prospects and follow it up with a marathon lunch.

The trick to maximizing deductions is to arrange meals that are either "directly related to" or "associated with" the conduct of business.

Example 1: Ben Williams finalizes an annual contract with a customer on Wednesday. To show his appreciation, Ben and his spouse treat the customer and spouse to dinner on Friday. The tab for the four people, including drinks and tip, comes to $500.

On those facts, Ben gets no deduction for the meal. However, this tax result can be changed with relative ease. Say that Ben meets the customer on Friday to wrap up things and sign the papers. Now the meal on Friday night is deductible, even though the spouses come along purely for social reasons.

Similarly, employees can maximize deductions for meals when they visit customers. Under the tax rules for business travel, 50% of the cost of meals is deductible when a taxpayer is away from home on business.

Example 2: Gwen Ricardo takes a trip out of state to woo a potential customer. When she makes her initial pitch, she dines by herself and drives home at night. Then gwen drives back the next week to finish negotiations. This time, she stays overnight and takes the customer out to dinner.

The cost of only one meal qualifies for deductions. However, Gwen can take deductions for both meals if she switches things around and treats the employee to dinner on the day trip. As a result, 50% of the cost is deductible because the meal is associated with business. And she also can deduct 50% of the cost of the meal on the overnight stay because it qualifies as a deductable travel expense.

Advisory: Don't forget to record the amount, time, place, business relationship and business purpose of meals. Also keep receipts for expenditures of $75 or more.