



February 2018

## Tax Reform Allows 100 Percent Deductions for Presentation Expenses

Tax reform did much damage to tax deductions for business entertainment and meal expenses.

But meals served at business presentations survived the entertainment and prospect and client meal bloodletting. And not only did presentation expenses survive as deductions, but they also continue as 100 percent business expense deductions.<sup>1</sup>

And a good number of small businesses are going to rejoice over this.

**Example 1.** Sam, a financial advisor, mails prospects an invitation to an educational dinner seminar. He does a one-hour presentation and then serves dinner to the participants. He spends \$3,000 on the dinner, and as the tax code stands now after tax reform, Sam deducts 100 percent of that \$3,000 cost as a presentation expense.

**Example 2.** Linda, a real estate sales professional, holds an open house and serves wine and hors d'oeuvres. Under current tax law, Linda's expenses for the wine and hors d'oeuvres are 100 percent deductible as presentation expenses.

### ***Drilling Down***

In Private Letter Ruling 9414040, the IRS quotes S.Rpt 99-313, which states:<sup>2</sup>

*... a wine merchant who permits potential customers to sample wine of the type that the merchant is offering for sale may deduct in full the cost of wine used as a sample, along with reasonable costs that are associated with the wine tasting (e.g., food that is provided with the wine to demonstrate the suitability of the wine for particular types of meals).*

**Example 3.** George markets and sells real property near Phoenix, Ariz., to residents of Arizona. He acts as a broker for the owners of the real property and receives commissions based on sales.

To find his prospects, George uses telemarketing and holds drawings for free trips to Hawaii at trade shows, conventions, and the Arizona State Fair. George does not engage in any other form of advertising.

He provides the dinners free of charge regardless of whether attendees purchase any property. The attendees must stay for the presentation. George does not eat free, nor do any of his employees. They are busy schmoozing and selling.

The IRS ruled that George's dinners are not entertainment but 100 percent deductible presentation expenses.<sup>3</sup>

**Example 4.** In *Matlock*, the court ruled that Matlock could deduct 100 percent of the refreshments he served to prospects during sales seminars he conducted in his home because the refreshments were a cost of his sales seminar and not entertainment.<sup>4</sup>

Matlock sold solar heating and cooling systems. He installed a unit in his home and used the sales seminars in his home to demonstrate the system.

**Example 5:** IRS regulations state that the cost of a fashion show is not entertainment when put on by a manufacturer of dresses for its prospective store buyers.<sup>5</sup> On the other hand, the IRS notes that the appliance distributor who conducts a fashion show for the spouses of his retailers incurs entertainment expenses.<sup>6</sup>

**Example 6:** The IRS says that although attending a theatrical performance is generally entertainment, this is not true for a professional theater critic who attends in his or her professional capacity.<sup>7</sup>

## ***Key Point—The Public***

IRC Section 274(e)(7) exempts the presentation expense from classification as entertainment when it is an expense for goods, services, and/or facilities that you make available to the general public.<sup>8</sup>

Robert Matlock paid a telemarketing service to locate prospective customers.<sup>9</sup>

George found prospects at trade shows, conventions, and the state fair.<sup>10</sup>

The first step to the 100 percent presentation expense deduction is that you are making your presentation to the general public.

If your audience is made up of relatives and close friends, they are not the public; but if your audience is made up of prospects with whom you have no personal relationship, they are obviously the public.

## ***Takeaways***

You have to appreciate that not only did tax reform not destroy the presentation expense deduction, but it also continues the presentation meal expense as 100 percent deductible.

The key point of the business meal as a presentation expense is that you are doing this with a group of prospects with whom you have no personal relationship. The tax code uses the term “general public” as the authorized group.

[Client Letter on This Article for Use by Tax Pros. Click Here.](#)

- 1 IRC Sections 274(e)(7); 274(n)(2)(A).
  - 2 PLR 9414040.
  - 3 Ibid.
  - 4 Robert Matlock v Commr., T.C. Memo 1992-324.
  - 5 Reg. Section 1.274-2(b)(1)(ii).
  - 6 Reg. Section 1.274-2(b)(1)(ii).
  - 7 Reg. Section 1.274-2(b)(1)(ii).
  - 8 IRC Section 274(e)(7).
  - 9 Robert Matlock v Commr., T.C. Memo 1992-324.
  - 10 PLR 9414040.
-