Meals and entertainment expenses

Accounting methods & credits services

With tax reform, Congress took a bite out of the meals and entertainment deduction. Now, more than ever, companies should consider performing an in-depth analysis to comply with the law and capture potential benefits that may otherwise be left on the table.

The 2017 U.S. tax legislation limited most of the fully deductible meals and entertainment (M&E) expenses paid or incurred after December 31, 2017. Taxpayers that have historically disallowed 50 percent of M&E expenses now need to perform an in-depth analysis to identify potential exposures related to nondeductible entertainment expenses and certain employee meal expenses. Fiscal year-end taxpayers overlapping 2018 will be subjected to the more stringent section 274 rules for the portion of M&E expenses paid or incurred after December 31, 2017.

Key changes to M&E expense laws under the 2017 U.S. tax legislation

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

It all adds up to advantages you can count on

Working with KPMG's Accounting Methods & Credits Services (AMCS) professionals to improve your M&E tax reporting can potentially enhance the following:

Potential benefits	How KPMG can help
Increase cash flow	Identifying M&E expenses that should be deducted at 100 percent, which can permanently reduce your federal and state tax expenses
Mitigate risk	Addressing potential tax exposures, such as items that should be 100 percent disallowed and are only being 50 percent disallowed
Reduce effective tax rate	Capturing potential permanent tax deductions
Control spending	Helping M&E and/or p-card administrators identify frequent user errors; time periods in which unusually high errors can be found; and areas of company policy that may require further clarification
Implement better controls	Enhancing processes for the future
Create Internal Revenue Service electronic deliverables	Providing supporting methodology and documentation

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. Below we have highlighted detailed case studies that demonstrate the experience of our team.

A large technology company engaged KPMG to assess the potential impact that tax reform may have on its 2018 tax return. Specific to M&E expense deductions, the company planned on classifying certain employee event accounts as 100 percent deductible based on the titles used in their general ledger. Upon further review, KPMG identified several miscoded expenses that were ***nondeductible***. Using a statistical sampling analysis, KPMG was able to help reduce exposure and improve the company's tracking of nondeductible and fully deductible expenses going forward.

A leading global social media company engaged KPMG to help make sense of the expenses tied to meals, entertainment, and transportation accounts within its general ledger. In light of tax reform, the company wanted to make sure expenses and deductions are in compliance with the law. At present, we are conducting a statistical sampling analysis in order to determine the proper disallowance for tax purposes. Additionally, KPMG is making recommendations on how to improve the data capturing process associated with the company's time and expense reporting system.

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 have to analyze is often misclassified, incomplete, or even inconsistent with company policy.

This is where KPMG can help. Our AMCS 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.

KPMG M&E tax services with IBM Watson

An Artificial Intelligence platform for business, IBM Watson's cognitive technology follows the same logic and reasoning that humans use every day. KPMG's AMCS Tax professionals train, not program, Watson to enhance, scale, and accelerate tax analysis. With this platform, you can discover corporate tax benefits and risk with greater confidence.

KPMG's tax services with IBM Watson are digitally enabled tax services targeted at companies looking to enhance their tax reporting to government authorities with the aim to improve tax efficiency while remaining compliant.

Harnessing digital capabilities with Watson, KPMG's Tax professionals are able to use new, advanced cognitive analytics and reasoning tools to make quicker and more accurate tax decisions, improving overall efficiency.

Using natural language processing and machine learning capabilities, they are able to understand and engineer key features (feature engineering) and concepts found within tax transaction data.

The engineered features and concepts are used to create an informed recommendation for a tax disposition for each transaction.

Capabilities include:

— Identifying a higher volume of 100 percent deductions (above the traditional 50 percent rate)

— Reducing risk of "haircuts" by expanding sample size and providing more complete transaction analysis

— Improving cash flow as a result of a lower cash tax payment

— Improving record-keeping systems to gather potentially qualified M&E deductions

— Improved documentation.

Contact us

James Bell
Manager Director,
Accounting Methods &
Credits Services
KPMG LLP
T: 206-913-4234
E: jamesbell@kpmg.com

Robert Delgado
Principal,
Compensation & Benefits
KPMG LLP
T: 858-750-7133
E: rdelgado@kpmg.com

April Blackman
Senior Manager,
Accounting Methods &
Credits Services
KPMG LLP
T: 858-750-7085
E: aprilblackman@kpmg.com

Melissa Abel
Manager,
Washington National Tax
KPMG LLP
T: 949-885-5794
E: mabel@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia