

*Will*  
the **Tax**  
**Law** *take*  
a *Bite?*



# **A primer on what you can and can't deduct for pharmacy business meals and entertainment**

by Scott W. Sykes, CPA, CGMA

On Dec. 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act. The legislation completely reformed many areas of tax law, including meals and entertainment rules. These rules will impact just about every pharmacy in the industry. Gone are the days of deducting expenses to take your local health provider to lunch to discuss your new compounding lab. That's right. These rules should not be ignored. On Jan. 1, the entire game changed with regard to business meals and entertainment.

## **BUSINESS MEALS AND ENTERTAINMENT**

Prior to the new law, meals and entertainment rules were last updated in the Tax Reform Act of 1986. The 1986 legislation stated business meals and entertainment were not deductible unless the expense was directly related to, or associated with, the active conduct of your pharmacy business. Not only did you need a bona fide business reason for the meal or entertainment, but proper documentation was also required, including who, what, when, where, the business purpose, and the amount. If you met these requirements, you could deduct 50 percent of the business and meal entertainment expense. To most, this was reasonable and it stood in tax law for more than 30 years.

Under the new rules, the following expenses incurred are impacted:

1. Any activity considered entertainment, amusement, or recreation
2. Membership dues to any club with a business, social, recreation, or pleasure purpose
3. Any facility used in conjunction with 1 or 2 above

In other words, any expense you incur — including meals — to entertain a business vendor, physician, or patient is nondeductible. For example, taking the new doctor to dinner to introduce your pharmacy, playing golf, or going to a professional sports event with your key wholesaler rep to discuss the contract revision is now nondeductible.

The good news is you do not have to document these types of expenses anymore. However, this will significantly impact pharmacies that use meals and entertainment to grow and foster business relationships. You can expect some grumbling as people become aware of this new rule.

### **DEDUCTING 50 PERCENT FOR MEALS**

What about lunch for your employees? Any meal served to employees at the pharmacy for the convenience of the employer is 50 percent deductible. To be eligible for the 50 percent deduction, it must be on the premises of the pharmacy (or a similar place that qualifies, such as a hotel conference room), and for the employer's convenience. A breakfast meeting for all employees to discuss the new workflow before opening the doors for business, or a lunch provided by the pharmacy so the staff can work through a busy Monday is 50 percent deductible.

Any meal you or your employees incur while traveling for business is 50 percent deductible. If you and your pharmacist-in-charge travel to a wholesaler conference and dine out a couple of nights for some local fare, this expense will be 50 percent deductible. But be aware that entertainment expenses after dinner will be nondeductible.

### **DEDUCTING 100 PERCENT FOR MEALS**

The tax law gives a break for employee parties. Recognizing employees and their spouses at an annual party, or something similar, is 100 percent deductible if most of the employees attend. The key to making this 100 percent deductible is to document the expense properly, including the party's purpose. Proper documentation for 50 percent or 100 percent meal expenses should include who, what, when, where, the business purpose, and the

detailed amount. The more detail you can provide in your documentation, the better support you have for any deduction if it is ever scrutinized by the Internal Revenue Service.

Regarding the chart of accounts for your pharmacy business, we suggest you create three new accounts:

1. Meals and entertainment—nondeductible
2. Meals 50 percent deductible
3. Meals 100 percent deductible

Be sure to keep your accountant up to date on these types of expenses as they are incurred, and be careful not to confuse the three accounts.

You can bet this will be a hot topic for the IRS going forward, so please make sure you have a full understanding of how the rules apply to your pharmacy.



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As this article went to print, the IRS had yet to issue further clarification or guidance on these rules.

Congress gave full power to the IRS to implement these new rules so there may be some significant changes. Look to Sykes & Company, P.A. and our Tax Reform Updates page at [www.sykes-cpa.com/tax-reform-updates/](http://www.sykes-cpa.com/tax-reform-updates/) to be on top of any new changes or interpretations in the months ahead and what it means for you, the pharmacy owner. ■

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