

Company events still deductible, IRS clarifies

The Tax Cuts and Jobs Act completely disallows your corporate deduction for employees' entertainment expenses. At the outset, many tax pros were concerned that this was the death knell for such storied traditions as the company picnic and Christmas party.

According to Veena Murthy, legislation counsel for the Joint Committee on Taxation, you can put those fears aside; expenses incurred for picnics and Christmas parties remain 100% deductible.

What stays the same. The deductibility of costs incurred for company events, such as a Christmas party, is covered under tax code Sections 274(e)(1) and (e)(4), which the TCJA didn't touch. Accordingly, you can continue to deduct the following expenses:

- Expenses for food, beverages and facilities furnished on your premises to employees
- Expenses for recreational, social or similar activities (i.e., entertainment) provided primarily for the benefit of employees, other than highly compensated employees.

OUT OF BOUNDS: It had become fashionable for companies to take employees on so-called team-building retreats at resorts. Deductions for those expenses are now completely disallowed.

What's confusing. Working condition fringes have always been defined as reimbursements made to employees who incur expenses that can be deducted under tax code Section 162 (trade or business expenses) or 167 (depreciation). The TCJA suspends those deductions through 2025, along with other deductions that are taken on Schedule A.

Regardless of this suspension, Murthy said Congress didn't intend to ditch working condition fringes, so your reimbursements to employees are still tax free. The 2018 edition of IRS Pub. 15-B confirms this.

A WORD ABOUT TRANSPORTATION FRINGES: The TCJA also completely disallows your corporate deduction for qualified transportation fringe benefits. According to Pub. 15-B, you can't skirt the disallowance by reimbursing employees or allowing them to pay for mass transit benefits with pretax deductions (normally, employees' pretax contributions are considered employer contributions and are deductible). Corporate deduction disallowance aside, these benefits can still be provided to employees on a pretax basis.