Limitation on Deduction by Employers of Expenses for Fringe Benefits

TCJA provides that no deduction is allowed with respect to:

(1) an activity generally considered to be entertainment, amusement or recreation;

(2) membership dues with respect to any club organized for business, pleasure, recreation or other social purposes; or

(3) a facility or portion thereof used in connection with any of the above items.

Thus, the present-law exception to the deduction disallowance for entertainment, amusement, or recreation that is directly related to (or, in certain cases, associated with) the active conduct of the taxpayer's trade or business (and the related rule applying a 50 percent limit to such deductions) is repealed.

TCJA also disallows a deduction for expenses associated with providing any qualified transportation fringe to employees of the taxpayer, and except as necessary for ensuring the safety of an employee, any expense incurred for providing transportation (or any payment or reimbursement) for commuting between the employee's residence and place of employment.

A business may still generally deduct 50 percent of the food and beverage expenses associated with operating their trade or business (e.g., meals consumed by employees during work travel). For amounts incurred and paid after December 31, 2017, and until December 31, 2025, this 50 percent limitation is expanded to expenses of the employer associated with providing food and beverages to employees through an eating facility that meets requirements for de minimis fringes and for the convenience of the employer. Such amounts incurred and paid after December 31, 2025 are not deductible.