



**BDO Seidman, LLP**  
Accountants and Consultants

May 2004

# Federal Tax Alert

## Subject:

## Meal & Entertainment Expenses-New Guidance

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### FOR MORE INFORMATION

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## Date/Timing:

Rev. Proc. 2004-29 (released May 3, 2004) is effective for all future tax returns and prior tax returns for years to which the 3-year statute of limitations is open. Accordingly, refund claims for prior open years may be filed using Rev. Proc. 2004-29.

## Affecting:

All businesses having deductible meal and entertainment expenses.

## Details:

Certain meals and entertainment expenses incurred in connection with a trade or business are deductible, but are generally subject to a 50% deduction limitation. There are exceptions to the 50% deduction limitation. For example, meals and entertainment expenses for recreational outings (holiday parties, picnics, etc.) for all employees are not subject to the 50% deduction limitation and, accordingly, are deductible in full. Rev. Proc. 2004-29 describes the statistical sampling methods that may help to determine the amount of meals and entertainment expenses excepted from the 50% limitation. These statistical sampling methods are the same methods used by CPAs in financial statement certified audits, for example, for confirming accounts receivable or payable.

## Recommended Action:

If your business incurs a large amount of meals and entertainment expenses, a portion of which may qualify under the exceptions to the 50% deduction limitation, statistical sampling can be used to help determine the amount excepted. If statistical sampling increases the amount of meals and entertainment expenses deducted in prior open years, consider filing a claim for refund.

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*Material Discussed in this newsletter is meant to provide general information and should not be acted on without obtaining professional advice tailored to your firm's individual needs.*