

Major Changes to Meals and Entertainment Deductions (Effective 2026)

January 7, 2026

The One Big Beautiful Bill Act (OBBBA) made important updates to the tax treatment of business meals and certain employer-provided food and beverages. The biggest practical impact for many employers: starting January 1, 2026, many workplace meals and food programs that were historically deductible (or partially deductible) may now be fully nondeductible unless a specific exception applies.

What Changed on January 1, 2026

1) Employer "Convenience" Meals and Company Cafeteria Meals Become 100% Nondeductible

For tax years beginning after December 31, 2025, expenses for meals provided for the convenience of the employer (including many on-premises meals) and meals provided in employer-operated cafeterias are disallowed in full under the updated rules. This change may impact common items such as:

- Office snacks and coffee
- Overtime meals
- Meals provided on-site through an employer cafeteria program
- Food provided for internal meetings (depending on the facts and how it is treated)

2) Targeted 100% Deduction Exceptions Are Expanded/Clarified for Certain Industries

The law includes limited situations where meal costs can remain 100% deductible. Depending on the facts, this may include:

- Businesses that provide meals to customers as part of their operations (for example, restaurants) may be able to deduct 100% of qualifying employee meal costs under an exception tied to meals sold to customers
- Certain meals and beverages provided in specific fishing and fish processing contexts may qualify for 100% deductibility under updated provisions

3) On-Site Cafeterias Open to the Public: Track Employee Meals Separately

If a business operates an on-site cafeteria that is open to the public and generates revenue, detailed tracking is critical. Beginning in 2026, meals provided to employees may still be treated as nondeductible even if the cafeteria also serves the public. Separating employee meals from public sales will help support the proper tax treatment.

What Is Not Changing (Still Important)

Entertainment Remains Generally Nondeductible

The general rule continues: entertainment expenses remain nondeductible in most circumstances, even when there is a business purpose. Examples commonly treated as nondeductible entertainment include sporting event tickets, theater tickets, golf outings, club dues, and similar activities.

The General "50% Meals" Limitation Still Applies in Many Situations

Outside of specific exceptions, business meals can still be subject to the general limitation that allows only 50% of otherwise allowable meal expenses, provided substantiation and other requirements are met.

Key Reminders: Documentation Still Drives the Deduction

To support any allowable meal deduction, taxpayers should continue to follow the fundamental requirements, including:

- A clear business purpose
- Not lavish or extravagant under the circumstances
- Proper substantiation (receipts, attendees, business relationship, and purpose)

- The taxpayer (or a representative) is present
- Separately stating food and beverage costs when entertainment is involved (since entertainment itself is generally nondeductible)

Why This Matters for Employers

Many employers will see an effective tax cost increase in 2026 due to the loss of deductions for common workplace food and beverage programs. Businesses that provide breakroom snacks and drinks, catered internal meals, overtime meals, or cafeteria-style meal programs should plan for:

- Increased after-tax cost of these programs
- Budgeting and cash-flow impacts
- Updated internal policies and accounting processes
- Cleaner documentation and GL coding to support any available exceptions

Action Steps to Take Now

1) Inventory Your Meal Programs

List every type of food or meal you provide (snacks, coffee, internal meeting meals, overtime meals, cafeteria programs, etc.) and identify which categories are likely to be fully nondeductible in 2026 versus potentially eligible for an exception.

2) Update Your Accounting and Expense Coding

Consider separate general ledger accounts (or tracking tags) for:

- 50% deductible meals
- 100% deductible meals (by exception category)
- Nondeductible employee meals (2026 rule impact)
- Nondeductible entertainment

3) Review Reimbursement and Compensation Approaches Carefully

Some meal costs may be treated differently when structured as taxable compensation or as part of certain reimbursement arrangements, but payroll reporting and employment tax consequences must be evaluated.

4) Confirm Industry-Specific Rules If Applicable

If you operate in an industry with special treatment (such as restaurants or certain fishing/fish processing operations), confirm eligibility and implement the right substantiation and tracking to follow the 2026 rules now in effect.

Need Help Evaluating the 2026 Impact?

We can help you model the tax impact, redesign tracking and coding, and determine whether any exceptions apply based on your facts so you are set up properly under the 2026 rules now in effect.