

# Meals and entertainment overview

Entertaining clients and customers is a fundamental cost of doing business. Unfortunately, if M&E deductions aren't treated properly, they can end up costing companies thousands, even millions, of dollars more than they should. So why do companies leave significant potential tax savings from M&E on the table? The simple answer is that they don't know it's there.

In many cases this is a matter of too few resources. Companies don't have the people, processes, or technology to classify M&E expenses properly. What's more, the data they have to analyze is often misclassified, incomplete, or even inconsistent with company policy. As a result, companies can miss the opportunity to increase their savings and lower their effective tax rates year after year after year.

This is where KPMG can help. Our Accounting Methods and Credit Services (AMCS) professionals have years of experience helping organizations realize more of the tax advantages from their M&E expenses.

Our team's combination of experience, the latest M&E tax knowledge, data analytics, plus a technology-enabled methodology makes it possible for us to help companies:

- Assess how they apply M&E rules currently
- Identify areas of potential opportunity and exposure
- Design and implement changes to tax processes to take advantage of opportunities, while managing potential exposures

Along with our AMCS group, our cross-functional team includes data analysts and economists. These specialists helped make KPMG one of the first to take advantage of proactive data analytics methods and statistical sampling to analyze M&E deductions. This capability translates into an accurate and efficient information gathering process—which means fewer requests to your team for data and information.



## Why M&E tax reviews matter

A typical M&E tax review often results in a 10 to 15 percent reclassification. For a company with a 40 percent effective tax rate and a disallowed meals and entertainment expense of \$3 million per year, a reclassification can amount to an additional \$180,000 in permanent tax savings. Now multiply this by three or more years and the value of our reviews becomes even more apparent.

## The right approach can make all the difference

Discovering the hidden value in your M&E expenses begins with our fully integrated approach. It's an approach designed to identify potential savings with minimal disruption to you and your staff. Our team's approach includes the following steps:

1. Identifying fully tax-deductible M&E expenses that were incorrectly limited to 50 percent deduction
2. Employing well-established technology and data analytics
3. Using statistical sampling to analyze detailed data more efficiently and in accordance with Rev. Proc. 2011-42
4. Conducting from one to eight year statistical samples in accordance with Rev. Proc. 2011-42 to help increase tax benefits
5. Using a customized access database to manage data and perform tax analysis more efficiently
6. Preparing a final audit-ready deliverable that supports calculations and positions

## It all adds up to advantages you can count on

Working with KPMG's AMCS professionals to improve your M&E tax reporting can deliver tangible benefits. These include helping you to:

- **Increase cash flow** by identifying M&E expenses that should be deducted at 100 percent, which can permanently reduce your federal and state tax expenses
- **Mitigate risk** by identifying and addressing potential tax exposures, such as items that should be 100 percent disallowed and are only being 50 percent disallowed
- **Reduce effective tax rate** by identifying potential permanent tax deductions
- **Control spending** by helping M&E and/or p-card administrators identify frequent user errors; time periods in which unusually high errors can be found; and areas of company policy that may require further clarification
- **Implement better controls** so your processes are enhanced for the future
- **Create IRS audit-ready electronic deliverables** that provide supporting methodology and documentation in case of audit



### CASE STUDY: Benefitting from M&E reclassification

Our client was a FORTUNE 500 multinational corporation that reported more than \$12 million in disallowed M&E expenses annually. Using our M&E tax knowledge, statistical sampling methodology, and integrated team, we were able to reclassify 18 percent of their M&E tax disallowances as fully deductible. With an effective tax rate of 38 percent, this amounted to \$800,000 in savings per year—or \$2.4 million total for the three years covered in the review.

## Contact us

For more information on how your company can increase saving and reduce its effective tax rate, contact:

**Conrad B. Kreutzer**  
Partner – National Leader  
T: 858-750-7180  
E: ckreutzer@kpmg.com

**Karen Field**  
Principal – WNT Technical Advisor  
T: 202-533-4234  
E: kfield@kpmg.com

**Peter C. Beale**  
Partner – East Contact  
T: 267-256-3370  
E: pbeale@kpmg.com

**Andrea M. Dudek**  
Director – WNT Technical Advisor  
T: 312-665-8477  
E: adudek@kpmg.com

[kpmg.com](http://kpmg.com)

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