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Good eats, tax breaks: Deducting employee meal costs

Synopsis - One thing about *human* resources — they need to eat. Just about every employer encounters situations in which it needs to provide meals to its employees. This article discusses the latest tax rules for deducting these costs.

Full Article - Different tax rules apply to different purposes for these expenses. We also look at the advantages and tax impact of establishing an employee cafeteria.

Claim half or all

Generally, a business may deduct only 50% of the cost of business meals for federal tax purposes. But food provided to employees may be fully deductible in circumstances such as when meals:

- Are provided as additional compensation (and thus included in employees' taxable income), or
- Qualify as tax-free de minimis fringe benefits.

You may also write off food, and exclude it from employees' income, if it's furnished for your convenience and on your premises.

Furnish with a purpose

Under IRS regulations, the "convenience of the employer test" is met only if meals are furnished for a "substantial noncompensatory business purpose." Whether meals pass this test depends on the facts and circumstances of each case. The IRS has given examples of a number of acceptable circumstances.

For instance, food provided to keep employees available for emergency calls during the meal period generally qualifies for the full deduction. But such calls must actually occur or be reasonably expected to occur.

Another example is when the nature of the employer's business tends to shorten a meal to, say, 30 to 45 minutes. The furnishing of meals, however, isn't considered to be for a substantial noncompensatory business purpose if a meal period is shortened in order to allow employees to leave early.

A third instance is when employees cannot otherwise secure proper meals within a reasonable period. The regulations state that meals are fully deductible under this test if there aren't enough eateries near the workplace.

Important note: Under the current tax rules, if more than 50% of employees fed on the premises are furnished meals for the employer's convenience, then *all* meals furnished on premises are treated as furnished for the employer's convenience. Therefore, these meals are excludable from employees' income, regardless of whether every employee meets the convenience test.

Enjoy your meals

From a tax perspective, providing meals to employees can be deceptively simple. On their face, the rules seem straightforward, but many exceptions and caveats apply. Stay apprised of the latest IRS guidance and double-check your company's meal deductions every year.

Considering a company cafeteria?

Years ago, only the largest companies had on-site cafeterias. But some midsize businesses are now establishing them, too. There are a number of potential advantages to doing so. Keeping employees on your premises can cut down on excessively long lunch breaks and foster collaboration among team members. A good cafeteria could also attract better job candidates.

From a tax perspective, an employer-operated eating facility is usually considered a de minimis fringe benefit. So the costs of providing meals there are generally 100% deductible as long as the cafeteria is located on or near your premises.

But there are a number of complex rules involved. For instance, the eating facility's revenue must normally equal or exceed its direct operating costs. We would be glad to work with you to ensure that the facility qualifies for tax-advantaged treatment when established and on an annual basis.

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