106 T.C. 343 (1996)

Employers can fully deduct the cost of employee meals if those meals qualify as a de minimis fringe benefit, and the determination of whether meals meet this exception is a factual question.

Summary

Boyd Gaming Corporation sought to deduct the full cost of providing free meals to employees in on-premises cafeterias. The IRS argued that Section 274(n)(1) of the Internal Revenue Code limited the deduction to 80%. Boyd Gaming contended that the meals were fully deductible under the de minimis fringe benefit exception (Section 274(n)(2)(B)) or the bona fide sale exception (Section 274(e)(8)). The Tax Court denied both parties' motions for partial summary judgment, holding that the de minimis fringe benefit exception could apply if factual requirements were met, but the bona fide sale exception did not apply. The court emphasized that whether the meals qualified as a de minimis fringe benefit was a factual issue requiring trial.

Facts

Boyd Gaming Corporation and its subsidiaries operated hotel and casino resorts in Las Vegas. They provided free meals to almost all on-duty employees in private employee cafeterias located on the business premises. These meals were provided for various operational reasons, including attracting and retaining employees in a competitive market and ensuring employees remained on-premises during shifts. The provision of meals was non-discriminatory and considered part of the employees' compensation package. The IRS disallowed 20% of the deduction claimed for these meal costs.

Procedural History

Boyd Gaming Corporation petitioned the Tax Court to contest the IRS's disallowance of a portion of their deduction for employee meal expenses. The IRS moved for partial summary judgment, arguing that Section 274(n)(1) limited the deduction. Boyd Gaming cross-moved for partial summary judgment, claiming exceptions under Sections 274(n)(2)(B) and 274(e)(8) applied.

Issue(s)

1. Whether the cost of meals provided by Boyd Gaming to its employees on its premises is limited to 80% deductibility under Section 274(n)(1) of the Internal Revenue Code.

2. Whether the employee meals qualify for the de minimis fringe benefit exception under Section 274(n)(2)(B), allowing for 100% deductibility.

3. Whether the provision of meals constitutes a bona fide sale under Section

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274(e)(8), allowing for 100% deductibility.

Holding

1. No, the cost of employee meals is not automatically limited to 80% deductibility because exceptions exist under Section 274(n)(2).

2. Yes, potentially, because if the meals qualify as a de minimis fringe benefit under Section 132(e) and Section 274(n)(2)(B), they are fully deductible; however, whether they meet the factual requirements of this exception is yet to be determined.

3. No, because the provision of meals does not constitute a bona fide sale for adequate consideration under Section 274(e)(8).

Court's Reasoning

The court reasoned that Section 274(n)(1) generally limits the deduction for food and beverage expenses to 80%, but Section 274(n)(2) provides exceptions. Regarding the de minimis fringe benefit exception, the court noted that meals are considered a de minimis fringe benefit under Section 132(e) if certain conditions are met, including the revenue/operating cost test. Crucially, for this test, employers can disregard costs and revenues for meals excludable under Section 119 (meals furnished for the employer's convenience). The court rejected the IRS's narrow interpretation that the de minimis fringe benefit exception only applies when employees pay for meals. The court stated, "Petitioners' deduction for their employee meals would not be limited by section 274(n)(1), for example, if section 119 allows all of petitioners' employees to exclude the value of the meals from their gross income. In such a case, the de minimis fringe benefit exception of sections 132(e) and 274(n)(2)(B) will allow petitioners to claim a complete deduction for the meals because the Cafeterias' revenues and expenses will both be zero for purposes of the revenue/operating cost test." The court found that whether the meals met the factual requirements of the de minimis fringe benefit exception, particularly concerning Section 119, was a matter for trial. Regarding the bona fide sale exception, the court held that providing free meals to employees as part of their compensation package does not constitute a "bona fide transaction for an adequate and full consideration." The court stated, "We believe that petitioners merely presented the meals to their employees in connection with the employees' employment with petitioners. To say the least, we are sure that petitioners' employees would be surprised to hear that they were paying arm's-length, fair market value prices for the meals."

Practical Implications

Boyd Gaming clarifies that employers can deduct 100% of employee meal costs if they qualify as de minimis fringe benefits, even if provided for free. The case emphasizes the importance of the factual inquiry into whether on-premises meals

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meet the requirements of both the de minimis fringe benefit exception and Section 119 (employer convenience). Legal practitioners must analyze the specific circumstances of employee meal provisions, focusing on operational reasons for providing meals, on-premises facilities, and compliance with Section 119 criteria to determine full deductibility. This case highlights that the de minimis fringe benefit exception is a viable path to full deduction for employee meals, moving beyond the general 80% limitation of Section 274(n)(1), provided the factual basis supports it.

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