Boyd Gaming Corp. v. Commissioner, 106 T. C. 356 (1996)

Employee meals provided on business premises can be fully deductible if they qualify as de minimis fringe benefits under section 274(n)(2)(B).

Summary

In Boyd Gaming Corp. v. Commissioner, the Tax Court addressed whether the full cost of meals provided to employees on business premises could be deducted. The court held that such meals could be fully deductible if they qualified as de minimis fringe benefits under section 274(n)(2)(B). The key issue was whether the meals, provided without charge, met the revenue/operating cost test. The court found that if the meals were excludable from employees' gross income under section 119, they could be considered de minimis fringe benefits, allowing full deduction. However, the court rejected the argument that the meals were sold in a bona fide transaction under section 274(e)(8). This decision impacts how employers structure meal benefits for tax purposes.

Facts

Boyd Gaming Corp. and California Hotel and Casino, both Nevada corporations, provided meals to their employees in their on-site cafeterias without charge. These meals were part of a competitive compensation package to attract and retain employees, who were required to stay on the premises during their shifts. The IRS disallowed 20% of the deductions for these meals, citing section 274(n)(1). Boyd argued that the meals qualified as de minimis fringe benefits under section 274(n)(2)(B) or were sold in a bona fide transaction under section 274(e)(8).

Procedural History

The Tax Court consolidated two cases and considered cross-motions for partial summary judgment. The IRS moved to limit deductions to 80% of the meals' cost, while Boyd sought full deductions, arguing the meals were de minimis fringe benefits or sold in a bona fide transaction. The court denied both motions, setting the case for trial to determine if the meals qualified as de minimis fringe benefits.

Issue(s)

1. Whether the cost of meals provided to employees on business premises without charge can be fully deducted under section 274(n)(2)(B) as de minimis fringe benefits.
2. Whether the meals were sold in a bona fide transaction for adequate consideration under section 274(e)(8).

Holding

1. Yes, because the meals may qualify as de minimis fringe benefits if they meet the

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criteria under section 132(e), including being excludable from employees' gross income under section 119.
2. No, because the meals were not sold in a bona fide transaction for adequate consideration, as they were provided without charge.

Court's Reasoning

The court analyzed the applicability of section 274(n)(2)(B) to meals provided without charge. It noted that the de minimis fringe benefit exception under section 132(e) could apply if the meals met the revenue/operating cost test, which could be satisfied if the meals were excludable from employees' gross income under section 119. The court emphasized that the legislative history of section 274(n)(1) did not preclude full deductions for meals that qualified as de minimis fringe benefits. The court rejected the IRS's argument that the exception only applied to cafeterias charging a fee, stating that neither the statute nor its legislative history supported such a limitation. Regarding section 274(e)(8), the court found that the meals were not sold in a bona fide transaction, as they were provided without charge and were not reported as sales on tax returns.

Practical Implications

This decision clarifies that meals provided to employees on business premises can be fully deductible if they qualify as de minimis fringe benefits under section 274(n)(2)(B). Employers should assess whether their meal programs meet the criteria under section 132(e), particularly the requirement that the meals be excludable from employees' gross income under section 119. This ruling may encourage employers to structure meal benefits to meet these criteria, potentially affecting employee compensation packages and tax planning. The decision also highlights that providing meals without charge does not constitute a sale under section 274(e)(8), impacting how employers report such benefits. Subsequent cases may further refine these principles, particularly in assessing what constitutes a substantial noncompensatory business reason for providing meals under section 119.

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