Jacobs v. Commissioner, 148 T. C. 24 (2017)

In Jacobs v. Commissioner, the U. S. Tax Court ruled that pregame meals provided by the Boston Bruins to team personnel at away city hotels qualified as de minimis fringe benefits, allowing full tax deductions. The decision hinges on the meals being essential for team preparation and performance, setting a precedent for how sports teams can deduct travel-related expenses without the 50% limitation typically applied to meal costs.

Parties

Jeremy M. Jacobs and Margaret J. Jacobs, as petitioners, filed against the Commissioner of Internal Revenue, as respondent, in the United States Tax Court.

Facts

Jeremy and Margaret Jacobs, through their ownership of Deeridge Farms Hockey Association, Manor House Hockey Association, and the Boston Professional Hockey Association, operate the Boston Bruins, a National Hockey League (NHL) team based in Boston, Massachusetts. The Bruins play half their games away from their home arena, necessitating travel to various cities in the U. S. and Canada. During these trips, the team contracts with hotels to provide pregame meals to players and staff, designed to meet specific nutritional guidelines to optimize performance. The meals are served in private hotel rooms and are mandatory for players. The Jacobs deducted the full cost of these meals in their tax returns for the years 2009 and 2010.

Procedural History

The Commissioner of Internal Revenue issued a notice of deficiency to the Jacobs, disallowing 50% of the claimed deductions for the pregame meals, asserting that the costs were subject to the 50% limitation under I. R. C. sec. 274(n)(1). The Jacobs contested this determination and filed a petition in the U. S. Tax Court. The court heard the case and issued its opinion on June 26, 2017.

Issue(s)

Whether the pregame meals provided by the Boston Bruins to their traveling hockey employees at away city hotels qualify as a de minimis fringe benefit under I. R. C. sec. 274(n)(2)(B), thereby exempting the cost of such meals from the 50% deduction limitation of I. R. C. sec. 274(n)(1)?

Rule(s) of Law

Under I. R. C. sec. 274(n)(1), the deduction for meal and entertainment expenses is limited to 50% of the cost. However, I. R. C. sec. 274(n)(2)(B) provides an exception for meals that qualify as de minimis fringe benefits under I. R. C. sec. 132(e). For

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meals to qualify as a de minimis fringe, they must be provided in a nondiscriminatory manner, at an employer-operated eating facility on or near the business premises, during or immediately before or after the workday, and the annual revenue derived from the facility must equal or exceed its direct operating costs.

Holding

The U. S. Tax Court held that the pregame meals provided by the Boston Bruins to their traveling hockey employees at away city hotels qualify as a de minimis fringe benefit under I. R. C. sec. 274(n)(2)(B). Consequently, the full cost of these meals is deductible without the 50% limitation imposed by I. R. C. sec. 274(n)(1).

Reasoning

The court's reasoning focused on the specific criteria for de minimis fringe benefits under I. R. C. sec. 132(e). It found that the away city hotels constituted the Bruins' business premises because significant business activities, essential to the team's operation and performance, occurred there. The court acknowledged that the nature of the NHL requires teams to travel extensively, and the hotels were crucial for team preparation, including rest, nutrition, strategy sessions, and medical treatments. The meals were provided in a nondiscriminatory manner to all traveling employees, and the court deemed the contractual agreements with hotels as leases for the use of meal rooms, thus satisfying the requirement that the eating facility be operated by the employer. The meals were also provided for the convenience of the employer, meeting nutritional and performance needs, and were served during the workday. The court rejected the Commissioner's arguments regarding the qualitative and quantitative significance of activities at the hotels, emphasizing the functional necessity of the hotels to the team's operations.

Disposition

The Tax Court denied the Commissioner's motion and entered a decision for the Jacobs, allowing them to deduct the full cost of the pregame meals without the 50% limitation.

Significance/Impact

This case sets a precedent for how professional sports teams can structure their travel and meal arrangements to qualify for full tax deductions under the de minimis fringe benefit exception. It highlights the importance of considering the specific nature of an employer's business when determining what constitutes business premises. Subsequent cases have referenced Jacobs v. Commissioner to support similar deductions for travel-related expenses in other industries. The ruling also underscores the necessity of detailed contractual agreements and operational control to meet the criteria for de minimis fringe benefits, impacting how businesses

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approach tax planning for employee benefits.

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