



PALO VERDE COLLEGE

WHERE KNOWLEDGE TAKES ROOT AND OPPORTUNITY GROWS

Accounting Advisory No. 2017-02

March 31, 2017

TO: Palo Verde College Employees

FROM: Dana Maxfield, Director
Palo Verde College Fiscal Services

SUBJECT: IRS Meal Taxation – Meetings

As of October 2016, meals at meetings must be for business purposes, or they will be taxed as income (for all participants). Generally speaking, if you are serving food at an event, there must be a business purpose and/or business conducted during the meal. The guidance we are giving is that if you plan to serve a meal (not snacks) you should have a program and/or presentation during the meal and it should be documented in the program or event schedule. The language can be found in the IRS Fringe Benefit Guide (2014):

Reimbursements or allowances provided to employees for meals in the course of entertaining customers may be excludable if the expenses are ordinary and necessary, and meet either a Directly-Related Test or an Associated Entertainment Test.

Directly-Related Test – Entertainment-related meal reimbursements may be excludable from wages if:

- *The main purpose of the combined business and meal is the active conduct of business;*
- *Business is actually conducted during the meal period; and*
- *There is more than a general expectation of deriving income or some other specific business benefit at some future time.*

All of the facts must be considered, including the nature of the business transacted and the reasons for conducting business during the meal. If the meal takes place in a clear business setting and is for your business or work, the expenses are considered directly related to your business or work. Reg. §1.274-2(c) and (d)

Examples of Directly-Related Meals or Entertainment

- *Meals at a hospitality room sponsored by an employer at a convention.*
- *Entertainment of civic leaders at the opening of a new city hall.*

Associated Entertainment Test - *Entertainment-related meal reimbursements meet the associated test and are excludable if the entertainment is:*

- *Associated with the active conduct of the employer's business; and*
- *Directly before or after a substantial business discussion.*

Generally, an expense is associated with the active conduct of a business if there is a clear business reason for incurring it. The purpose may be to get new business or to encourage the continuation of an existing relationship. These activities are not required to occur in a clear business setting. Whether a business discussion is substantial depends on the facts of each case. A business discussion will not be considered substantial unless you can show that you actively engaged in the discussion, meeting, negotiation or other business transaction to get income or some other specific business benefit. You must be able to show that the business discussion was substantial in relation to the meal. Reg. §1.274-2(c) and (d)

<https://www.irs.gov/pub/irs-pdf/p5137.pdf> pp. 46 - 47

Beginning April 1, 2017, Palo Verde College will be implementing this change. If you have upcoming or are planning an event that includes a meal, please plan accordingly. If not, each participant at the meal event will be taxed the total cost of the meal divided equally among the participants. There will be a presentation that discusses this advisory on Wednesday, April 5 at 10:00 am and Tuesday, April 11 at 3:00 pm. Please see the email or check the [Fiscal Services Page](#) for more information.