

Meals While Traveling

As discussed earlier, employers often reimburse employees for meals while traveling away from home overnight or while attending meetings or entertaining customers. These meals generally fall under the rules for travel and transportation expenses, discussed earlier. The taxability of these reimbursements or allowances depends on whether there is a valid business reason for the meals and whether the expenses are substantiated. Reimbursements or allowances must first meet the accountable plan rules in order to be excludable.

Overnight Travel

In general, meals are subject to the same rules as other expenses when they occur under the conditions of travel expenses, discussed earlier. The overnight rule, discussed earlier, and the accountable plan rules apply. In order for travel meal reimbursements to be excludable from wages, employees must be traveling away from their tax home on their employer's business. As with other travel-related expenses, the general area of work, not the employees' residence, determines the tax home.

Traveling "away from home" means:

1. Employee must be traveling away from the general tax home area substantially longer than an ordinary day's work, and
2. Employee needs to obtain substantial sleep or rest to meet the demands of the work while away from home. *IRC §162(a)(2) Rev. Rul. 75-170 Rev. Rul. 75-432*

Meals Away From Tax Home But *Not* Overnight

Generally, these meals are taxable as wages to the employee because travel must be away from home overnight to be excludable.

Example: An employee is required to travel from Topeka to Wichita to work for the day. The employer agrees to pay for the employee's meals while in Wichita. The employee leaves home at 7:00 a.m. and returns home at 9:00 p.m. Before the employee returns in the evening, the employee takes a nap in his car for an hour.

Although the employee is away from his tax home for substantially longer than a normal work day and even stops for rest, the employee is not considered to be away from home overnight. The rest is not be considered substantial. Any meal money that the employee receives is taxable as wages.

For more information, refer to the earlier handout on Travel and Transportation Expenses.

Meals as Entertainment

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 meet the directly-related test and 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 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 the expense. The purpose may be to get new business or to encourage the continuation of an existing relationship. These activities need not 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)*



Trade or Professional Association Meetings

Reimbursements for meal expenses directly related to and necessary for attending business meetings or conventions of certain exempt organizations are excludable from wages if the expenses of your attendance are related to your trade or business. These organizations include chambers of commerce, business leagues and trade or professional associations. *Reg. §1.274-2(d)(3)*

Example: A manager regularly buys lunch for all of the employees in her group after monthly group meetings in an effort to boost morale. The manager and the employees are reimbursed by the employer. This does not meet either the directly-related test or the associated test and is not a qualified business meal. The value of the meal is considered taxable to the employees.

Example: A government official attends a meeting as a representative of his agency. The meeting is followed by a dinner for which the official is reimbursed by this agency. The meal reimbursement meets the associated business test, and therefore qualifies as an excludable business meal.

De Minimis Exclusion for Occasional Meal Reimbursements

Regularly-provided meal money does not qualify for the exclusion for de minimis fringe benefits provided by an employer. Occasional meal money can meet an exception and be excludable, if the following three conditions are met:

- **Occasional Basis** - Meal is reasonable in value, and is not provided regularly or frequently, **and**
- **Provided for Overtime Work** - Overtime work necessitates an extension of the employee's normal work schedule, **and**
- **Enables Overtime Work** - Provided to enable the employee to work overtime. Meals provided on the employer's premises that are consumed during the overtime period, or meal money expended for meals consumed during that period, satisfy this condition. *Reg. §1.132-6(d)(2)*

If meal reimbursements are provided as part of a company policy or union contract, they are not excludable as de minimis benefits, because the benefit is required and is not occasional. The employer would normally have the opportunity to set up the administrative procedures for reporting the benefit, so accounting for it does not meet the "administratively impracticable" standard for de minimis benefits.

Meal money calculated on the basis of number of hours worked (for example, \$5.00 per hour for each hour worked over 8 hours) is never excludable as a de minimis fringe benefit. *Reg. §1.132-6(d)(2)*