

Meals & Lodging Benefits for Employees

Code section 119 allows a business to furnish meals and/or lodging, in certain situations, to employees as a tax-free benefit, and as a 100% (rather than 50%) deductible item to the employer.

1. The exclusion applies to income, FICA, Medicare and FUTA tax.
2. The benefit exclusion also applies to the employee's spouse and dependents.

In order to deduct the meals provided to employees, two tests must be met:

1. The meals must be furnished on the employer's business premises, and
2. The meals must be furnished for the convenience of the employer. For the employer's convenience if there is a substantial noncompensatory business reason.

The regulations list several examples of noncompensatory reasons that meals might be furnished without charge:

- If the employee is required to occupy living quarters on the business premises as a condition of employment.
- If they are furnished to have the employee available for emergency call during the meal period, if it can be shown that emergencies have, or can be expected to occur.
- If there are insufficient eating facilities in the area for the employee to secure a meal within a reasonable time period.
- Meals furnished to food service employees during, or immediately before or after working hours.
- Meals provided because of restrictions to a short meal period because of peak workload during meal periods.
- Meal costs also include the cost of groceries purchased by the corporation.
- The groceries should be purchased by the corporation not by the taxpayer.

In order to deduct housing provided to employees, three tests must be met:

1. The lodging must be furnished on the business premises of the employer,
2. The lodging must be furnished for the convenience of the employer, and
3. The employee must be required to accept the lodging as a condition of employment
 - For example, if the employee is required to be available for duty at all times, or
 - If the employee could not perform his or her duties unless furnished the lodging.

Lodging includes the cost of utilities:

- Household furnishings
- Telephone services

Because these benefits were designed as employee fringe benefits, the benefits would be fully deductible if provided to owners of C-corporations, fully deductible (but added back to individual income) for owners of S-corporations (under Section 1372) LLC's and partnerships, and non-deductible to sole proprietors.

*This information should be used as a guideline. Specific questions regarding this "Biz Facts" should be directed to a Business by Design tax professional.