

# STRATEGIC

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Strategic Integrated Planning

## **Deduction of Company-Sponsored Employee Gatherings**

Retreats and company meetings are an important component of a successful business. They are opportunities for employees and managers to come together, discuss business strategies, develop new product ideas, and plan future activities. Retreats and other off-site meetings are increasingly an annual ritual of corporate culture. They are also expensive and businesses seek to deduct as many of the costs as possible.

Traditionally, the IRS has taken a very strict approach to the deductibility of expenses from company meetings. If the meeting is deemed extravagant, the costs of holding the meeting will not be deductible as ordinary business expenses and may be treated as income to the employees. The IRS takes special interest in business meetings that are held at resorts, on cruise ships and outside the U.S. It is very good at denying these costs as excessive and taxpayers do not have a good track record of prevailing in the courts. That is, until recently.

A few years ago, an encouraging case was handed down that continues to guide courts and taxpayers in determining the ability of taxpayers to effectively mix business with pleasure and deduct both. There, a federal appeals court found that a company-sponsored fishing trip to a five-star resort in Canada was a legitimate cost of doing business. The IRS had determined otherwise and a federal district court agreed. Undeterred, the company appealed and won.

The fishing trips were a longtime company tradition. For more than 20 years, the company brought managers, sales people and factory workers from across the country to its home office for a three-day meeting. At the end of the meeting, almost all of the participants traveled, thanks to the company, to a resort in Canada for three days of fishing.

Fishing was not the only thing on the agenda. The company showed that over the three days, the participants discussed the business' performance, its sales, activities of competitors, and brainstormed ideas for new products. Testimony also revealed that while employees were not required to attend the fishing trips, they were strongly encouraged to attend by their managers and many felt it would be disloyal to the company not to go. Some employees testified they did not like fishing.

The appeals court was convinced that the fishing trips were not corporate junkets. Even though they were all-expense paid trips to a five-star resort, employees viewed them more as mandatory company meetings than as vacations. The court allowed the company to deduct the full cost of the trips.

Of course, some of the facts were unique to the company. The appellate court even took time to note its admiration of the company's pro-employee business philosophy. Not all employers might fit that bill. However, the decision does break with the traditional IRS approach and opens the door to challenging adverse determinations.

We can help you anticipate what expenses will be deductible and which expenses may be challenged. Careful planning also avoids the risk of having the costs of the meeting treated as income to your employees. So before you pack your bags, give us a call. 1-866-657-0246 or [jwaage@strategiclawgroup.com](mailto:jwaage@strategiclawgroup.com)