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TAX REPORT

In Face-off With IRS, the Boston Bruins Win Big

Hockey team prevails in tax case about deducting cost of meals, a ruling that could have wide impact



The owners of the Boston Bruins, whose players include Patrice Bergeron, above, won a tax case that experts say could have broad implications. PHOTO: JOHN RUSSELL/NHLI/GETTY IMAGES

By Laura Saunders

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The Boston Bruins ruled the world of professional hockey six years ago when they last won the Stanley Cup. But the team's victory last week over the Internal Revenue Service will likely resonate far beyond the rink.

In *Jacobs v. Commissioner*, the owners of the National Hockey League's Bruins argued the team should be able to deduct 100% of the cost of certain meals they provided to players and staff. Under current law, only 50% of the cost of many business meals is tax-deductible.

The Bruins' victory has potentially opened up a new tax maneuver for many businesses. Now they may be able to write off twice as much as they thought allowable for meals provided to large groups at business meetings far from company headquarters.

“This decision goes completely for the taxpayer and opens the door to meal deductions that many people assumed weren’t possible,” says Eddie Adkins, national technical leader for employee benefits with accounting firm Grant Thornton.

A spokesman for the IRS, which still has time to appeal the decision, had no comment. A Bruins spokesman said, “We are pleased with the decision.”

The case was brought in the U.S. Tax Court by Jeremy and Margaret Jacobs, who own the Bruins through several entities. At issue were write-offs for business-meal expenses, long a highly contested area of tax law.

Many years ago, the so-called three-martini lunch was fully deductible. But in the 1980s, Congress scaled back deductions for business-meal expenses.

Today, in most cases, 50% of the cost of business meals is tax-deductible, though there are exceptions that allow for larger deductions.

For example, meals provided to employees on a business’s premises can be 100% deductible by the company and not taxable to the employee if they’re provided for the convenience of the employer and meet other conditions. This is an argument Silicon-Valley firms have used to preserve tax benefits for their sumptuous offerings of free food to workers.

The Bruins’ owners deducted 100% of the cost of meals provided to players and staff at road games, which came to \$255,754 in 2009 and \$284,446 in 2010. The IRS argued the law allowed only for a 50% deduction of these expenses, and it wanted an extra \$85,000 in taxes.

The Tax Court judge disagreed with the IRS and sided with the Bruins. In his decision, released in late June, the judge cited five conditions met by the team when he ruled in its favor:

- The meals were served in a separate space that was treated as leased by the Bruins. (The team didn’t pay extra for the space, which was provided free because the team paid for lodging and food.)
- Bruins management contracted for and controlled the food that was provided.
- The room where meals were served was on or near the business premises of the Bruins—based on other cases holding that hotels can be business premises.
- The meals were provided during the workday, or just before or after it.
- The meals weren’t taxable to the Bruins players and staff because they were provided for the convenience of Bruins’ management.

For hockey aficionados, the decision provides a wealth of detail about the team’s practices and culture, especially on game days. For example, the team always provides the same types and quantities of food for meals “to avoid players’ having gastric problems during the game.”

According to ‘Behind the B,’ a television series that has documented the Bruins over the past few seasons, team meals most often include simple items such as chicken and pasta. Occasionally,

there will be a special treat in certain cities, such as during the team's west coast trip last year. The team surprised the players by bringing in In-N-Out Burger in Los Angeles.

The case isn't crucial financially for the Bruins. The team has a player payroll of about \$70 million this year. But the decision is a certain win for all types of professional sports teams that play away games.

Tax experts say the ruling could have even broader applications.

Some businesses periodically bring far-flung employees together for training or coordination. If they meet the conditions set forth in the opinion, they might also qualify for a deduction of 100% of meal expenses for all employees who attend rather than a 50% write-off, says Mr. Adkins.

It isn't clear how the rules would apply to meetings at restaurants or at other types of corporate meetings. But there are a host of possibilities.

Mary Hevener, an employee-benefits attorney with Morgan, Lewis & Bockius, agrees the case is a win for taxpayers but says she expects controversies over these meal deductions to continue.

"The IRS guidance in this area is murky, and agents often apply rules based on laws that were later changed by Congress," says Ms. Hevener.

A crucial issue for companies to think about as they weigh what to do is the legal definition of meals provided "for the employer's convenience." Congress has changed the law on meal deductions several times in the past few decades, but the IRS hasn't updated its regulations since 1978, she says.

Tax experts say this lack of guidance makes the current meal deduction rules as confusing as hockey's rules for icing and offsides.

So until the agency issues new rules, companies that decide to challenge the IRS over company-provided meal expenses could find themselves battling it out in court.

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