Company Meeting Space Rental

(a.k.a. Augusta Rule)

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Your Business Optimized.

HOW IT WORKS

Section 280(A) of the Internal Revenue Code grants an individual an ability to rent their home for less than 15 days per year without reporting that income or paying tax on it, so long as certain requirements are met. Business owners can use this to their advantage by holding legitimate business meetings in their home for a fee. When done right, the business gains a legitimate tax deduction while the homeowner (usually the business owner) gains the money tax free. Legitimate meetings could include board meetings, company parties, employee meetings or other types of meetings that are relatively infrequent and serve a legitimate business purpose.

HOW TO IMPLEMENT

One to three parties are required to implement this strategy:

1) You as the business owner need to have the meetings, make sure you obey the rules, and collect the proper documents.
2) Your bookkeeper (which could be you, your tax professional, or another third party) needs to make sure this is properly recorded in your books, which is typically done as a rent expense.
3) Your tax professional needs to make sure this is properly reported on your tax return, including taking into account any impact in your state.

REQUIREMENTS

To meet the requirements of Section 280(a), the following must exist:

1) There is a legitimate business reason for the rental
2) The owner charges the business a reasonable rate for the rental
3) The property is a qualifying residence
4) Proper documentation is kept

LEGITIMATE BUSINESS REASON

Legitimate business meetings could include (but are not limited to):

1) Board meetings
2) Company parties
3) Upper management meetings
4) Financial, legal, marketing, or other meetings
5) Business growth meetings

When planning appropriate meetings, it is best to avoid using those that are frequent, routine meetings, such as weekly staff meetings, daily partner discussions, or other meetings that typically occur more frequently than once a month.

REASONABLE RATE

The general rule of thumb is to charge a rate similar to what you would pay a third party to rent a space for your meetings. You could, for example, get quotes from event venues, hotels, or other locations that offer space in your area.

At Tax Hive, we frequently refer to a website called Peerspace (found at www.peerspace.com) to find reasonable rates. We will search for board rooms within a state. We will then determine a reasonable middle ground (which we have seen typically falls in the range of ($175-$275 per hour), and pull supporting documentation from the website for these rates. We like to recommend holding meetings that can justify a day rental so you can reasonably justify $1600 per meeting.

QUALIFYING RESIDENCE

There are two requirements for a property to fit the rules of a qualifying residence.

1) Rent a dwelling that also qualifies as one of your residences
2) The property is not rented out for more than 14 days per year

A dwelling unit, according to the code, includes a house, apartment, condominium, boat, mobile home, and similar property. It is proposed a residence should include basic living accommodations, including a sleeping space, a toilet, and cooking facilities.

To be a residence we like to recommend you use a property in which you live over 140 days because you have to live in the home for the greater of:

1) 14 days, or
2) 10% of the days you rent the unit

Remember the 14 day rule has been argued to apply on a rolling 12 month basis, which means you can't go over the 14 days in any 12 month period. For this reason we at Tax Hive like to recommend one meeting per month. It keeps you safely below the 14 day limit.

PROPER DOCUMENTATION

We strongly recommend the following documents as part of your audit defense in using this strategy:

1) A rental agreement for the use of the home (we recommend a new one for each use, though it can be a newly signed copy of previous agreements where dates and signatures are all you update).
2) Documentation of the meeting that took place (i.e. board meeting minutes or event pictures). Meeting minutes, if used, should include who was there, what was discussed, and the date the meeting was held. Pictures, if used, should include timestamps to support the claim.

3) An invoice sent from you to the company clarifying the date of the meeting and the rate charged.
4) Evidence the invoice was paid

The final pages of this document provide examples of these documents..

AN EXAMPLE OF THE AUGUSTA RULE:

Client A owns Corporation B, which files as a Subchapter S Corporation. As a Subchapter S Corporation, Corporation B is required to hold board meetings. Client A chooses Spouse C as a member of the board, and they elect to have monthly board meetings.

Client A does some research and determines an average range of $175-$275 per hour is normal for meeting spaces they find. Client A decides to rent the home to the business at $1600 per day (8 hours times $200 per hour), choosing not to be aggressive in rates. Over 12 days at $1600 per day, Client A charges Corporation B $19,200 per year for meetings.

Because Client A chooses not to rent the personal residence for any other reason, Client A stays below the 14 day limit and is allowed to exclude the rental income from their income. Corporation B pays the money to Client A, allowing Corporation B to claim a legitimate expense on their books.

SUPPORTING TAX LAW

1) IRC Section 280A(g)
2) IRC Section 280A(f)(1)(A)
3) Proposed IRC Section 1.280A-1(c)(1)
4) IRC Section 280A(d)(1)

EXAMPLE DOCUMENTS

The following pages contain examples of documents that can be used to evaluate what documents your company can use for the use of the corporate meetings, a.k.a. The Augusta Rule.

MINUTES OF THE MEETING OF DIRECTORS OF

_____

A meeting of the directors was held at _____(insert location)_____, on the _____day of _____, 20___.

The following members were present:

_____

_____

_____

_____

_____

Appointed as the chairman of the meeting was _____.

The top five matters discussed and the resolutions/actions determined include:

1. *Matter 1 - associated resolution or actions to be taken*
2. *Matter 2 - associated resolution or actions to be taken*
3. *Matter 3 - associated resolution or actions to be taken*
4. *Matter 4 - associated resolution or actions to be taken*
5. *Matter 5 - associated resolution or actions to be taken*

Any other important items to report on.

AGREEMENT TO RENT RESIDENCE TO A CORPORATION

PARTIES

Property Owner: _____

Tenant/Renter: _____

PROPERTY ADDRESS

_____

TERM

This rental agreement is for ONE day, being the ___ day of _____, 20___.

RENT

The rate of rent shall be $_____ per day, due and payable within 30 days of receipt of the invoice.

AMENITIES

Amenities provided by the landowner for the use of the client are included in the cost of rent and shall include the following: _____.

SIGNED

The undersigned acknowledges that they have read the agreement and will comply with the terms.

Dated this ___ day of _____, 20___.

_____ Owner

_____ Tenant

VALUATION WORKSHEET

This valuation is being done for the purpose of determining a fair market rental rate for a meeting space for the board of directors of the below-named organization. Once the valuation is completed, the organization will determine which location it shall use for its meeting place. Aside from price, other factors to be considered include access to information and resources needed for decision making and other business purposes, convenience, and the atmosphere and location of the space provided. (see below or refer to attachments)

Organization: _____

First Location: _____ Price_____

Amenities and Notes: _____

Second Location: _____ Price_____

Amenities and Notes: _____

ThirdLocation: _____ Price_____

Amenities and Notes: _____

Fourth Location: _____ Price_____

Amenities and Notes: _____

Fifth Location: _____ Price_____

Amenities and Notes: _____

Sixth Location: _____ Price_____

Amenities and Notes: _____