BRIGHT HILL ADVISORS

TAX AND ACCOUNTING SERVICES

Company Meeting Space Rental (a.k.a. Augusta Rule)

Section 280(A)

Table of Contents

1) HOW IT WORKS
2) AGREEMENT TO RENT RESIDENCE TO A CORPORATION (Template)
3) RENTAL VALUATION WORKSHEET (Template)
4) MINUTES OF THE MEETING OF DIRECTORS (Template)

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 or event rental.

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. Often a 1099-MISC is issued to the owners social for the rent amount. This will be picked up on the 1040 schedule E and the same amount will be deducted with a note Section 280(A) adjustment.

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

Avoid using frequent, routine meetings (like weekly staff meetings or daily partner discussions) as justification.

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.

Quotes can be obtained from event venues, hotels, or sites like www.peerspace.com.
Typical rates range between $175-$275 per hour. A safe approach is to justify $1600 per meeting as a day rental (8 hours x $200/hr).

QUALIFYING RESIDENCE

Requirements:
1) Must rent a dwelling that qualifies as your residence
2) The property is not rented for more than 14 days per year

Residences can include houses, apartments, condos, boats, mobile homes, etc.
Recommendation: Use a home in which you live at least 140 days per year.
Note: The 14-day rule may apply on a rolling 12-month basis, so avoid exceeding it. Holding one meeting per month is safest.

PROPER DOCUMENTATION

Documents recommended for audit defense:

1) Rental agreement for each use
2) Documentation of the meeting (minutes or timestamped photos)
3) Invoice from you to the business
4) Proof of payment

AN EXAMPLE OF THE AUGUSTA RULE:

Client A owns Corporation B (an S Corporation). Corporation B must hold board meetings.
Client A chooses Spouse C as a board member and holds monthly board meetings.
Client A researches rates and charges $1600 per day (8 hrs x $200/hr), totaling $19,200 annually for 12 meetings.

Client A excludes this income (under 14-day limit), while Corporation B deducts it as a business expense.

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 _____

RENTAL 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 Name: _____

First Location: _____ Price_____

Amenities and Notes: _____

Second Location: _____ Price_____

Amenities and Notes: _____

Third Location: _____ Price_____

Amenities and Notes: _____

Fourth Location: _____ Price_____

Amenities and Notes: _____

Fifth Location: _____ Price_____

Amenities and Notes: _____

Sixth Location: _____ Price_____

Amenities and Notes: _____

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: