General Statement

Business entertainment is often essential for employees to carry out the mission of The University of North Carolina at Chapel Hill. The purpose of this policy is to provide guidance as to the type expenses that qualify as business expenses under the various fund sources received by the University, the documentation requirements for business expenses, and when business expenses might be taxable.

Business Entertainment – Sponsored Research

Business entertainment expenses cannot be charged to contracts and grants unless such entertainment is specifically authorized by the terms of the contract or grant.

Business Entertainment – State Appropriation/State Receipts Supported Funds/Overhead Receipts

Business entertainment expenses can only be charged to State Appropriations, State Receipts Supported funds, and Overhead funds in limited circumstances as follows:

Alcohol

State Appropriated funds, State Receipts Supported funds, and Overhead Receipts funds may not be used to purchase alcohol. (Refer to Deans, Directors, and Department Chairs’ memorandum 1839 from the Chancellor and dated September 2, 1998, regarding the guidelines for serving alcohol at University-sponsored events.

External Conferences

External conferences are those that involve the attendance of persons other than University employees during which official University business is discussed for the majority of the meeting. Payments for meals up to the State per diem amount for meals under the travel rules are allowable if included in the registration fee. The registration fee must be charged to cover more than just the meal costs unless overnight travel criteria are met. Refreshment breaks may be paid from this fund source if there are twenty or more participants and the costs do not exceed four dollars ($4) per participant per day. Refer to the Travel Section for detailed criteria for designation as an external conference.

Internal Conferences

Internal conferences are those that involve the attendance of employees within the University. Payments for meals are not allowable unless overnight travel criteria are met. Refreshment breaks may be provided if there are twenty or more participants and the costs do not exceed four dollars ($4) per participant per day. Refer to the Travel Section for detailed criteria for designation as an internal conference.
Training Sessions

Training sessions involve courses that develop an employee’s knowledge, skill, and ability to perform the duties of his/her present job. The courses generally have a set fee, are of relatively short duration, and are not part of a curriculum leading to an educational degree. Refreshment breaks may be paid from this fund source if there are twenty or more participants and the costs do not exceed four dollars ($4) per participant per day. The costs of lunch (or other meals) may not be paid.

Informal Meetings

Business entertainment expenses of informal meetings may not be paid from this fund source unless advance, written approval is received from the Chancellor or his/her designee for a specific event. An informal meeting is a meeting including the Chancellor or his/her designee and non-state employees during which official University business is discussed for the majority of the meeting. Informal meetings are one-time occurrences and are not held on a recurring or routine basis. Business entertainment expenses for informal meetings should be incurred on an infrequent basis. The Chancellor, or his/her designee, may be reimbursed for actual costs of meals for themselves and individuals who are not state employees and who are their guests. The costs of meals and other expenses for family members of University administrators or personal guests are not reimbursable.

Recruitment of Employees and Students

Business entertainment expenses related to the recruitment of employees and students may not be paid unless expressly allowed. Refer to the Other Business Entertainment section below.

Other Business Entertainment

Other business entertainment expenses may not be paid from Overhead funds. Other business entertainment expenses may be paid from State fund sources based on the facts and circumstances of the situation if advance, written approval is obtained from the Vice Chancellor for Finance and Administration or his/her designee. The University dean, director, or department chair should provide documentation that the funds were provided by the state for a particular instructional, research, public service, or academic or administrative support program with the intention that appropriate business entertainment expenses would be part of the costs of operating the program.

Business Entertainment - Institutional Trust Funds and Special Funds (Excludes Overhead Receipts)

Business entertainment expenses may be charged to Institutional Trust Funds (excluding Overhead Receipts which must follow State rules - see previous section) and Special Funds as described below if consistent with the fund authority for the account. Refer to the appropriate fund authority for an account for additional guidance. (Refer to Deans, Directors, and Department Chairs’ memorandum 1860 from the Associate Vice Chancellor for Finance and dated March 4, 1999 regarding the fund authority guidelines for Overhead Receipts).

Alcohol

Alcohol may be purchased from other Institutional Trust Funds or Special Funds (except for Overhead funds) only if those funds are discretionary in nature and the fund authority is sufficiently broad to cover
the purchase. Guidelines pertaining to the purchase and sale of alcohol, the location of functions which includes alcohol on University property, and the requirements for functions at which alcohol is served should be followed. (Refer to Deans, Directors, and Department Chairs’ memorandum 1839 from the Chancellor and dated September 2, 1998 regarding the guidelines for serving alcohol at University-sponsored events).

Recruitment of Employees and Students

The University recruits in a highly competitive market for top employees and students. It is the policy of the University to invite prospective employees and students, and on occasion both the candidate and immediate family members to visit the campus. Prudent and reasonable costs of a dinner (or other meal) meeting or a reception which occurs as part of the recruitment process may be reimbursed as business entertainment.

Prudence suggests that University employees (including their guests) involved in the recruitment events should be limited to: (1) in the case of faculty: key faculty, department chairs, and dean or associate dean; (2) in the case of department heads: the dean, associate dean, key faculty of department, and administrative officials; (3) in the case of recruitment of deans: the members of the search committee, faculty as appropriate, and deans and administrative officials; and (4) in the case of major administrative officials: the members of the search committee, faculty and administrative staff as appropriate, and administrative officials.

Official Guests of the University

Business entertainment of University guests is essential. Examples of official guests would include the following: visiting lecturers; visitors from foreign countries; representatives of research organizations; visitors from other universities; individuals interested in University programs and issues (potential donors); guests invited to assist in the development of new programs (both paid and non-paid consultants); and business and community leaders. The relationship between the visitor and the University employees attending the function or their areas of responsibility must be clearly indicated, particularly for those who are at the campus on specific business on behalf of the University.

The University is not normally expected to reimburse official guests for travel and related expenses, except where the guests travel to the University on specific invitation. Reasonable costs of a dinner (or other meal), meeting or a reception which occurs as part of the official guest’s visit may be reimbursed as business entertainment.

External Conferences

Business entertainment expenses should be covered from the revenue produced by the event and separate records maintained.

Internal Conferences, Training Sessions, Recognition Events, Business Meetings, and Seminars

A meal, such as luncheon, and refreshment breaks which are provided as part of a departmental conference, training session, a recognition event for one or more employees, a business meeting, or a seminar are reimbursable as business entertainment expenses. The costs incurred should be prudent and reasonable.
Receptions and Dinner Meetings

Receptions for employees, alumni and friends of the University are reimbursed as business entertainment.

The University may, from time to time, hold dinner meetings for administrative officers, deans, department chairs, and faculty, including guests, for the purpose of discussing items of general University interest. Such meetings are reimbursed by the University as business entertainment.

Documentation Requirements

Business entertainment expenses must be documented (substantiated) to meet requirements of the federal tax code (see section below), and prudent business practices. To meet these standards the expenses must be documented to show:

1. Identification of the persons or group being entertained - If a small group (8 or less individuals) is being entertained, the names of all persons attending must be shown along with the number of persons attending.

2. A statement as to the reason for such business entertainment - Indicate how the business entertainment benefited the University and clarify the relationship of the persons in attendance to the particular aspects of the University's programs or activities (titles, committee names, field of interest of person being entertained, reason for visitor being on campus, etc.).

3. The place of entertainment – The location must be provided. Receipts for business entertainment expenses are required for reimbursement to employees. If payment is to be made to a vendor, the normal invoice or statement of costs is required.

Payments are be made for business entertainment expenses when the documentation is complete. A request for documentation is forwarded to the individual responsible for the account when additional documentation is required. If appropriate action cannot be taken to properly document the expense, the employee should bear the cost of the business entertainment.

Taxability of Business Entertainment Expenses

Business entertainment expenses are not taxable to employees when the reimbursements are part of an accountable plan as defined in the federal tax code. Business entertainment expenses are considered part of an accountable plan only if the following three conditions are satisfied: (1) there must be a business connection for the expenses; (2) the employee must either substantiate (document) or be deemed to have substantiated (documented) the expenses and (3) the employee must return to the University amounts in excess of the substantiated (or deemed substantiated) expenses.

Business Connection

The business connection requirement generally is satisfied if the expenses are incurred in connection with the performance of services as an employee.
**Substantiation**

The substantiation requirement is satisfied if enough information is submitted to the University to satisfy the documentation requirements discussed above.

**Return of Excess Amounts**

An employee must return amounts received in excess of those substantiated or deemed substantiated within a reasonable period of time.

**Tax Regulations**

Although many business entertainment expenses would be considered as part of an accountable plan, it is important to adhere to tax regulations to avoid taxability of reimbursements. "Ordinary and necessary" meal and entertainment expenses under an accountable plan will not be reported on the employee's form W-2. In order for a meal or entertainment expense to be considered "ordinary and necessary", the expense must be "directly related to" or "associated with" the active conduct of the trade or business. For example, during the meal, business must be discussed and there must be an expectation of a business benefit such as the hiring of a professional candidate or the obtaining of a gift or bequest from a potential donor. Furthermore, there should be no "substantial distractions" at the site of the meal.

**Business Meal Requirements**

In a typical business meal situation, there will be at least one person present who is not a university employee. It is possible, however, for a University employee to entertain other University employees over a meal and have that meal qualify as a nontaxable meal eligible for University reimbursement. To be considered nontaxable, the meal in question must be considered to be an "ordinary and necessary" business expense "directly related to" or "associated with" the active conduct of University business. Whether or not these requirements are met in a setting where only university employees are present requires judgment based on the facts and circumstances of each case. The courts have looked to the frequency of such meals as one factor in making this determination. For example, a group of business colleagues meeting daily for lunch to discuss bona fide business matters was not held by the courts to satisfy the necessary business requirement noted above. Thus, the fact that a lunch occurs only occasionally lends more credence to its business necessity. Whether a lunch would have occurred anyway in the same location must also be too expensive for the University employee's personal taste or was conducted at an inconvenient location, then the expense will most likely not be an "ordinary and necessary" one.

If all of the requirements noted above are met for business meals, the University will reimburse the cost of the meals to either the employee or to the vendor. The cost of business meals is excluded from the employee's gross income and is not subject to withholding or payroll taxes. If the requirements are not met and the University pays the cost, then the expense reimbursement is taxable to the employee as part of a non-accountable plan.

The tax code and related regulations provide that expenses reimbursed under an accountable plan will not be reported on the employee’s form W-2, hence the employee need not account for them on his or her tax return. Any amount considered paid under a non-accountable plan, however, must be included in the employee’s income on form W-2. However, it should be noted that the University does not reimburse for business entertainment expenses that are not part of an accountable plan.