

## Question One

First transaction: Ursula's move to her new position

If Ursula had paid for her moving expenses, she would've been able to deduct them. The move was over 50 miles and position was certain. But Haelco paid for her moving expenses. Is this gross income to Ursula? No. IRC § 132(g) excludes this ~~fringe~~ employer provided fringe benefit from Ursula's gross income. The moving expenses could've been deducted by Ursula. Thus, § 132 applies and excludes ~~the~~ Haelco's payment of ~~the~~ her moving expenses from her gross income.

2<sup>nd</sup> transaction: rent-free home

Here, the issue involves whether the ~~the~~ rent-free living should be excluded from Ursula's income. Or is this a form of compensation? IRC § 119 applies. We're not concerned with meals here, only lodging. Of the 3 requirements for ~~the~~ free lodging to be excluded from gross income, Ursula ~~was~~ was required to live in the home as a condition of her employment. Haelco probably wanted her to live in the community. The other 2 requirements are tougher to meet. The home isn't directly on the business premises.

Necessity to the S.M. (function of Haelco)

but across the street. Ursula would argue for a broad reading of the rule saying the home is part of the ~~premises~~ "business premises". The IRS would argue for a strict reading of the rule ~~and~~ saying the home was not on the business premises. Ursula would have a tougher time meeting the third requirement, "for the convenience of the employer," since she isn't on call. Haelco doesn't seem to have a good business reason as to why she needs to ~~be~~ <sup>live</sup> across the street. A convenient location for food raising dinners is not a good reason that satisfies the test. Thus, ~~that~~ <sup>the</sup> rent would be included ~~in~~ <sup>in her</sup> gross income as compensation for services. The rent income is ordinary income.

### 3<sup>rd</sup> transaction: food-raising dinners

Assuming that catering was the only expense incurred during these dinners, Ursula could've deducted the expense under IRC § 274, but she did not pay the expense, Haelco paid. They could deduct the ~~cost~~ expense under § 62. No tax is required to Ursula due to this transaction.

If the court says primary purpose was personal, can't deduct any cost of ticket.

4th transaction: basement apartment

Probably not gross income to the two nurses.  
But no tax consequence to Ursula due to this transaction.

5th transaction: trip to Asia

First ~~write~~ before discussing other aspects of deducting the trip to Asia, the IRS would definitely argue that first-class airfare, four-star hotel stay, and fine dining are "lavish or extravagant" and thus the cost of the trip is outside the scope of IRC §162. Now, ~~Ursula~~ since convention is outside U.S., Ursula would <sup>first</sup> have to prove that it was reasonable to hold convention in Asia given ~~who~~ the organization is. ~~Given~~ that's probably ok here since "we are the world" convention is reasonable to have ~~anywhere~~ in the world. Next, 4 days was for business <sup>purpose</sup>, 4 days was for personal purpose. The trip is either primarily ~~for~~ for business or primarily personal. This matters for determining if ~~the~~ a portion of the plane ticket can be deducted. If the court says ~~the~~ trip was primarily for business, Ursula could deduct ~~the~~ half the ticket cost. The lodging and food expenses could be deducted, but only for those related to the

4 days attending the convention. Also, no expenses attributable to Bill can be deducted by Ursula since Bill is not an employee of Haelco. (see IRC § 294(m)(3)). Ursula kept the required records. Haelco's reimbursement of these trip expenses would be gross ordinary income to Ursula.

### 6th transaction: the barbecue

The issue here is whether the ~~costs of the~~ barbecue ~~was~~ was a gift or a business expense. Also an issue is whether the barbecue was just a personal expense. ~~With Ursula is the hospital's employees' employer, the barbecue cannot be a gift. It's deemed a compensation for services Ursula is not the employer, Haelco is. So, this is not an automatic compensation for services. If business is not discussed before, during, or after the barbecue, this is a personal expense and not deductible to Ursula. If business is discussed, Ursula can probably deduct the costs of ~~the~~ providing the barbecue to her employees ~~as~~ under IRC § 274. The "substantial & bona fide business discussion" test is easy to meet. So, Ursula could probably deduct the costs of the barbecue. But, she's only be able to deduct 50% of the costs.~~