

15TH ANNUAL MIDWEST REGIONAL PAYROLL CONFERENCE

Taxation of Fringe Benefits



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Your instructor

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RSM

Fringe Benefit Taxation

- Internal Revenue Code, Section 3121(a) defines wages as “all remunerations for employment, including the cash value of all remunerations paid in any medium other than cash”
- A fringe benefit is a form of pay for performance of services. Applies to employees, independent contractors, partners or directors
- Many employers offer ‘fringe benefits’ to employees as an inducement to accept employment
 - ▢ Gym memberships, food, cars, signing bonuses, relocation

Fringe Benefit Taxation

- All fringe benefits are taxable and must be included in the recipient's imputed income unless specifically excluded by law
- Fair market value establishes the value of noncash benefit
 - The FMV of any fringe benefit is the amount an individual would pay to an unrelated third party to obtain a comparable benefit in an arm's length transaction

Cafeteria Plan

■ A separate written plan that provides participants the opportunity to receive certain benefits on a pre-tax basis. Participants must be permitted to choose among at least one taxable benefit (such as cash) and one qualified benefit. (IRC §125) Qualified benefits include:

- Accident & Health Insurance plans
- Dependent Care Plans
- Group Term Life
- Adoption Assistance
- Health Savings Accounts

Excluded Fringe Benefits

Accident and Health Benefits

- Employer contributions on behalf of an employee

Awards – Length of service or safety achievement

- Tangible personal property
- Presented in a ‘meaningful presentation’
- Can not be ‘disguised compensation’
- \$1,600 limit for ‘qualified plan awards’ (\$400 for nonqualified awards)

Excluded Fringe Benefits

Adoption Assistance

- Expenses must be paid as part of a written adoption assistance program
- The exclusion limit in 2017 is \$13,570 per eligible child
- Subject to FICA, FUTA
- Income limitation phase out (Modified adjusted gross \$203,540 to \$243,540)
- Report in Box 12, code T

Excluded Fringe Benefits

Athletic Facilities

- Exclude value of an employee's use of an on-premises gym or other athletic facility operated by the employer if substantially all the use of the facility is by the employees, their spouses, and their dependent children
- Does not apply to athletic facilities that are part of a resort

Excluded Fringe Benefits

De Minimis Benefits

- If the property provided has so little value that accounting for it would be unreasonable or administratively impracticable
 - Occasional use of copy machine
 - Occasional typing of personal letters by Co personnel
 - Occasional parties or picnics
 - Occasional tickets for entertainment or sporting events
 - Holiday gift (No cash or cash equivalent)
 - Food (coffee, donuts, soft drinks, etc.)

Excluded Fringe Benefits

Dependent Care Assistance

- Up to \$5,000 each year (reported in box 10 with excess amounts in boxes 1, 3, and 5)
- Must be “necessary” services
- Written plan
- Must be provided under a nondiscriminatory plan
- Notification
- Annual statement

Excluded Fringe Benefits

Educational Assistance

- Job-related education
 - Courses must be necessary to meet minimum education requirements of current job
 - Courses can not be taken to qualify for a promotion or transfer to a different type of work
 - The education must be related to the employee's current job and must help to maintain or improve the knowledge and skills required for the job
- Non job-related education
 - Up to \$5,250
 - Amounts over \$5,250 possibly excluded as a working condition fringe benefit
 - Must be provided under a nondiscriminatory plan
 - Must be a written plan
 - Only for the benefit of employees
 - Benefits can be tied to course grade

Excluded Fringe Benefits

Employee Discounts

- Offer discounted goods and services to employees that are offered to customers in the ordinary course of business
 - Up to 20% off the price you charge nonemployee customers
 - Can not exceed the gross profit percentage – $(\text{Total Sales Price} - \text{Cost of Property Sold}) / \text{Total Sales Price}$
 - Goods or services must be offered to public in normal course of business
 - Can not discriminate in favor of highly compensated employees
 - Includes current and former employees
 - Does not include real estate and personal property held for investment (stocks, bonds, or currency)

Excluded Fringe Benefits

Group-Term Life Insurance Coverage

- You can exclude up to \$50,000 in coverage from federal income, Social Security and Medicare
- You can generally exclude all group-term life insurance coverage from federal income tax withholding

Personal Use of Company Vehicle

- De Minimis
- Qualified non-personal use vehicles – police cars, ambulances, school buses, etc.
- Demo vehicles by full-time sales persons

Excluded Fringe Benefits

Employer Provided Lodging

- Furnished on employer's business premises
- Furnished for the employer's convenience
- The employee must accept it as a condition of employment

Employer Provided Meals

- Provided on employer's business premises
- Provided for the employer's convenience

Excluded Fringe Benefits

Moving Expense Reimbursement

- Distance Test – must be at least 50 miles further from old residence than previous work place
- Time Test – 12 months following move, employee must work full-time at least 39 weeks in general location of new work place
- Excluded items include:
 - Transportation of goods – packing and moving
 - Storage costs
 - Expenses for travel between old and new residence – includes transportation (19 cents per mile) and lodging (meals are not inclusive)

Excluded Fringe Benefits

Moving Expense Reimbursement - continued

- Must be under an accountable plan
- Report excluded items that are reimbursed to employee in Box 12, Code P
- Taxable amounts are reported in Box 1,3 & 5 (withheld amounts in Box 2, 4 & 6)

Excluded Fringe Benefits

Business Travel Expenses

- Must be “away from home”
 - Away from regular or principal place of business
- Must be “temporary”
 - Must be away from regular or principal place of business for no more than 1 year
 - The IRS uses a “realistic expectation” test to determine whether travel to a single location is realistically expected to last for more or less than 1 year.
- Must be under an accountable plan

Excluded Fringe Benefits

Business Travel Expenses - Continued

- IRS “realistic expectation” test
 - Work in a location that is realistically expected to last (and does in fact last) for one year or less Away from regular or principal place of business
 - If it is realistically expected to last for more than one year or there is no realistic expectation that the employment will last for one year or less, the assignment will be treated as indefinite, regardless of whether it actually exceeds one year.
Must be “temporary”
 - An assignment that initially is realistically expected to last for one year or less, but at some later date the employment is realistically expected to exceed one year, will be treated as temporary until the date that the taxpayer's realistic expectation changes.

Excluded Fringe Benefits

No-Additional Cost Services

- Regularly offered to customers in normal course of business
- No substantial additional cost
- Includes current and former employees that left due to retirement or disability
- Available to all members of a group of employees that does not discriminate in favor of highly compensated employees

Health Savings Account (HSA)

- Designed for High Deductible Health Plans (HDHP)
- 2017 contribution limits - \$3,400 for individual coverage & \$6,750 for family coverage

Excluded Fringe Benefits

Tuition Reduction

- Applies to educational organizations
- Current employees, retired or disabled employees, their window(er)s, spouses and dependent children
- Applies to undergrad courses, graduate teaching and research assistance
- Can not represent a payment for services rendered

Excluded Fringe Benefits

Qualified Transportation Benefits

- Commuter vehicle provided by employer (between home & work)
 - Seats at least 6 adults, other than driver
 - 80% of vehicle's mileage is expected for commuting
 - At least 50% of vehicles seating capacity is used by employees (does not include driver)
- Transit passes, vouchers, tokens paid or reimbursed by employer (\$255 per month in 2016)
- Parking on or near employer's premises or a 'park & ride' facility (\$255 per month in 2016)

Excluded Fringe Benefits

Working Condition Fringe Benefits

- Property or service provided so that the employee can perform his or her job
 - Related to the employer's trade or business
 - Employee would be able to take a business deduction
 - Applies to current employees, partners, directors & independent contractors
 - Records to substantiate business deduction
 - Examples: use of demonstrator car for car salesman, membership fees or dues (APA dues)

Benefits Included in Income

- Pre-move house hunting
- Closing costs
- Personal use of company aircraft
 - General valuation rule – amount paid in arms length transaction
 - Non-commercial flight valuation rule – $([SIFL \times \text{Mileage}] \times \text{weight based aircraft multiple}) + \text{terminal charges} = \text{value}$
- Personal use of company vehicle
- Spousal travel on business trip
- Awards and prizes

Benefits Included in Income

- Gift certificates
- Sporting event tickets
- Back pay awards and damages
- Vacation property
- Bonuses
- Stock options
 - Statutory stock options
 - Non-statutory stock options
- Loan forgiveness
- Executive apartments

Contact Information

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