



LGOC

March 23, 2018

Fringe Benefits
By Wendy Speelman
Internal Revenue Service



IRS Fringe Benefits

- Fringe benefits include any property, service or cash payment provided to your employees (other than salary)
- All compensation provided to your employees (cash and non cash) is taxable unless specifically excluded by the law
 - Example IRC 106 for Health Insurance

2

IRS What To Do?

- Identify specific benefit provided to employee (s)
- Determine if benefit is excluded by law and
- Determine if benefit is fully taxable, or partially taxable

3

 Taxable Fringe Benefits

- Include in Employee's wages on W-2
- Never on 1099-MISC
- Subject to FIT Withholding, Social Security and Medicare (if applicable)
- Enter as a "non-cash taxable benefit" in software system

 Exclusions

- Medical Premiums IRC 106
- Cafeteria Plans IRC 125
- Education Assistance IRC 127
- Dependent Care IRC 129
- Certain Fringe Benefits IRC 132

 De Minimis Benefit

- Property or service, the value of which (after taking into account frequency) is so small that accounting for it would be unreasonable
- Must be small and infrequent
- Frequency defined - an event which is not haphazard but regularly reoccurring

 **Accountable Plan**

- Business Connection
- Adequate 'accounting' by employee in reasonable time period
- Excess reimbursement returned in a reasonable time period
- If 3 requirements met then not taxable
- If requirements aren't met then it is taxable (Nonaccountable Plan)

 **Gift Certificates**

- TAM 200437031
- Employer provided holiday gift coupon redeemable at local stores
 - Intended to be used for ham or turkey
 - Had restrictions on it (i.e. tobacco)
 - Limited dates to redeem it
- Determined to be taxable

 **Awards**

- Taxable:
 - Cash prizes including gift certificates
 - Performance awards
 - Non-Cash prizes use Fair Market Value
 - [IRC 74](#)
- Nontaxable: if rules are followed
 - Employee Achievement awards
 - Length of service awards
 - Safety award
 - [Treasury Regulations 1.274-8](#)

 **Bonuses**

- Taxable to the employee & included in their wages/W-2
- Never on Form 1099
- Includes: All cash & check bonuses, Christmas bonuses & gift certificates
- IRC 61
- Treasury Regulation 1.61-2 & 1.132-6(c)

 **Day Meals**

- If the employer reimburses or pays for meals on a **day trip** then:
 - Include the cost of meal reimbursed to the employee in their payroll as a fringe benefit
 - Subject to FIT Withholding, Medicare and SS if have SS wages
 - Revenue Ruling 75-432 & 75-170

11

 **Day Meals continued**

- If union contract says to pay for meals then reimburse but include in wages
- If have policy to pay for meals if traveling out of county it is still taxable and included in wages
 - Must include in payroll the amount of lunch as a noncash item

12



Meals at Conferences

- “Associated With” Meals - Tax-Free not included in wages if:
 - Meals at conventions
 - Meals at conferences
 - Does not include going to lunch with co-worker (this would be personal & taxable = include in wages)

13



Automobile Expenses

- Personal vehicle used for business
- 2018 - .545 cents per mile
- At this rate or less: Non-taxable
 - Excess over rate: Taxable fringe benefit included in wages
- Monthly allowance for driving your own car for business is taxable if no accountability
 - verify mileage – mileage log, calendar

14



Employer Provides Vehicle

- What is considered personal use?
 - Commuting, spouse or weekend use
- Substantiation Requirements
 - Business & Personal mileage
 - Documentation = personal use is taxable
 - No documentation = all mileage is taxable
 - Exception for some positions/vehicles

15

 Valuation of Personal Use

- Include in wages as a fringe benefit
- 3 Automobile Valuation Rules for providing a vehicle to employee
 - Auto Lease Valuation Rule
 - Applies to all auto - doesn't have to be leased
 - Vehicle Cents-Per-Mile Rule
 - Commuting Rule

16

 Lease Valuation Rule

1. Determine FMV of vehicle
2. Use table in Publication 15-B
3. Determine % of personal use
4. Multiple Annual Lease Value by % of personal use
5. If fuel is provided then add 5.5 cents per mile

 Cents-Per-Mile Rule

- Vehicle “regularly used” in business or
- Vehicle driven 10,000 miles a year and FMV in 2017 limited to \$15,900

- Regularly used means
 - 50% or more of mileage is for business or
 - Vehicle is used to transport at least 3 employees to work
- .545 cents in 2018

 **Commuting Rule**

- \$1.50 per one-way commute if:
- Vehicle owned/leased by employer
- Employer requires the employee to commute for bona fide noncompensatory business reasons
- Written policy on personal use
- No control employees (elected officials)

19

 **What is Commuting?**

- Driving from home to office or office to home
- Commuting is a taxable fringe benefit if done in the employer's vehicle
- Include all trips to and from work in 1 day (attend meeting in evening)
- Include if go in on weekends or evenings
- Include even if called in for an emergency

20

 **Commuting Method Example**

How much would be included in the employee's wages for the benefit received?

- Supervisor takes car home every day
- Goes to work at 7 AM & goes home for lunch
- Comes back to office & goes home at 4 PM
- Comes back in for a mandatory meeting at 7 PM & returns home at 9 PM

21

 **Commuting Method**

- Don't assume \$3 every day worked
- Include commuting on weekends, evening and lunch
- If someone is salary do you know if they came in on weekends or evenings?
- Could have business stop on way in or home and then wouldn't be commuting

22

 **Qualified Non-personal Use Vehicles (QNPV)**

- Use of a QNPV is excludable to employee as a working condition fringe benefit
- Commuting is nontaxable to the employee
- Must have policy on restricting personal use of the vehicle
- Substantiation and record keeping is not required

 **Examples of qualified Non-personal use Vehicles**

Clearly marked police and fire vehicles
Unmarked vehicles used by law enforcement officers

The officer must be:

1. Authorized & regularly carries a firearms
2. Execute search warrants
3. Make arrests (not citizen's arrest)

 **Examples of Vehicles**

- Ambulance
- Dump truck
- Flatbed trucks
- Utility repair truck (not a pickup truck)
- Passenger buses (at least 20 passenger)
- Delivery trucks with driver seat only or driver & folding jump seat
- Vehicle designed to carry cargo - loaded gross vehicle weight over 14,000 lbs

 **Uniform Requirements**

For uniforms to be nontaxable and not be included in the employee's wages they must:

- Be required by employer to be worn
 - Must be in written policy
 - Can't be optional if they wear them
- Not be adaptable to every day street wear

26

 **Accountable Plan**

- Allowances paid through non- accountable plan are Taxable
 - If give employee \$200 for uniform and they don't provide substation (receipts) then must include in W-2
 - Business Connection
 - Return excess in reasonable time

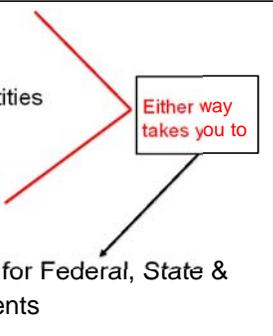
27

IRS Law & Court Cases

- If clothing suitable for taking the place of regular clothing, include in W-2
 - IRC 162 & 262
 - Mella v. Commissioner T.C. Memo 1968-594
- Not enough that the employee does not wear the clothing away from work
 - Pevsner v. Commissioner 628 F.2d 467

28

IRS Tax Information for Govt. Entities

- www.irs.gov
 - File Tab (at top)
 - Government Entities
- OR
- www.irs.gov/govts
- And then select:
- Tax Information for Federal, State & Local Governments
- 

29



30
