Taxable Fringe Benefits September 10, 2020

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Taxable Fringe Benefits Agenda

- What is a fringe benefit?
- Compensation – Nontaxable and Taxable
- Highlight some nonreportable fringe benefits
- Highlight some taxable taxable fringe benefits
- Tax treatment of fringe benefits

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Definition of Wages

- The Internal Revenue Service defines wages subject to taxation as all compensation an employee receives for services performed by that employee for the employer.
- This includes both payments made in cash and payments in any other form, such as salaries, vacation, bonuses, commissions, and fringe benefits.
- Compensation paid by noncash methods is valued at the fair market value to the employee.

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Fringe Benefit

- What is a fringe benefit?
- An extra benefit supplementing an employee's salary for the performance of services.

- Perks! Privileges! Rewards! Freebies! Incentives!

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Taxable vs Nontaxable Compensation

Back pay awards	Dependent child care assistance (up to $5,000) under a Section 129 plan
Bonuses	Company vehicle (business use only)
Commissions	De minimis fringes
Company vehicle (personal use)	Disability benefits (employee contributions)
Dismissal and severance pay or final vacation pay	Educational assistance for job-related courses (no limit)
Employer-paid transit passes and transportation in commuter highway vehicle in excess of $270/month for 2020	Group-term life insurance premiums ($50,000 or less of coverage)
Employer-paid parking greater than $270/month for 2020	Medical/dental/health plans (employer contributions)
Fringe benefits (unless specifically excluded)	No-additional-cost fringe benefits
Gifts, gift cards, prizes, and awards	Qualified employee discounts on employer goods/services
Group-term life insurance over $50,000	Qualified transportation fringe benefits

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Taxable vs Nontaxable Compensation

Nonaccountable reimbursed business expenses	Reimbursed business expenses (if accounted for in a timely manner)
Noncash fringe benefits, unless excluded by Internal Revenue Code	Working condition fringe benefits which would be deductible if paid by employee
Sick pay and disability benefits (portion attributable to employer contributions)	Non-job-related education assistance up to $5,250
Moving expenses	Long-term care insurance
Overtime pay	Workers' compensation benefits
Regular wages	Health Savings Accounts
Tips	

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Nonreportable Fringe Benefits

De Minimis (Minimal) Fringe Benefits

De minimis fringe benefits are so small in value that it is unreasonable or administratively impractical for the employer to account for them. They are not included in an employee's taxable compensation.

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Examples of Nonreportable Benefits

- Occasional typing of a personal letter by a company administrative assistant
- Occasional personal use of the employer's photocopy machine (less than 15% of the total use of the machine)
- Occasional parties for employees
- Occasional tickets to the theater or sporting events
- Occasional supper money for working overtime
- Traditional holiday gifts like a turkey or a ham (but not gift cards, or certificates that are treated like cash)
- Coffee or donuts furnished by the employer
- Use of company telephone for personal calls

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Fringe Benefit Taxability

- Most fringe benefits and other compensation
- Federal employment taxes

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Sick Pay

- In general, sick pay is any amount you pay under a plan to an employee who is unable to work because of sickness or injury.
- These amounts are sometimes paid by a third party, such as an insurance company or an employees' trust.
- The social security, Medicare, and FUTA taxes don't apply to sick pay paid more than 6 calendar months after the last calendar month in which the employee worked for the employer.
- The payments are always subject to federal income tax.

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What is Qualified Transportation?

- Commuter Highway
  - Heavy Rail Vehicles
  - Van Pools
- Transit Passes
  - Pass
  - Tokens
  - Fare Card
- Qualified Parking
  - Work Location
  - Tax savings

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Special Rules for Various Types of Fringe Benefits

	Treatment Under Employment Taxes		
Type of Fringe Benefit	**Income Tax Withholding**	**Social Security and Medicare (including Additional Medicare Tax when wages are paid in excess of $200,000)**	**Federal Unemployment (FUTA)**
Accident and health benefits	Exempt[1], except for long-term care benefits provided through a flexible spending or similar arrangement.	Exempt, except for certain payments to S corporation employees who are 2% shareholders.	Exempt
Achievement awards	Exempt[1] up to $1,600 for qualified plan awards ($400 for nonqualified awards).		
Adoption assistance	Exempt[1,2]	Taxable	Taxable
Athletic facilities	Exempt if substantially all use during the calendar year is by employees, their spouses, and their dependent children, and the facility is operated by the employer on premises owned or leased by the employer.		
De minimis (minimal) benefits	Exempt	Exempt	Exempt
Dependent care assistance	Exempt[2] up to certain limits, $5,000 ($2,500 for married employee filing separate return).		
Educational assistance	Exempt up to $5,250 of benefits each year. (See *Educational Assistance*, later in this section.)		
Employee discounts	Exempt[2] up to certain limits. (See *Employee Discounts*, later in this section.)		
Employee stock options	See *Employee Stock Options*, later in this section.		
Employer-provided cell phones	Exempt if provided primarily for noncompensatory business purposes.		
Group-term life insurance coverage	Exempt	Exempt[1,3,5] up to cost of $50,000 of coverage. (Special rules apply to former employees.)	Exempt
Health savings accounts (HSAs)	Exempt for qualified individuals up to the HSA contribution limits. (See *Health Savings Accounts*, later in this section.)		

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Special Rules for Various Types of Fringe Benefits

Treatment Under Employment Taxes			
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Accident and health benefits	Exempt,[2] except for long-term care benefits provided through a flexible spending or similar arrangement.	Exempt, except for certain payments to S corporation employees who are 2% shareholders.	Exempt
Achievement awards	Exempt[2] up to $1,600 for qualified plan awards ($400 for nonqualified awards).		
Adoption assistance	Exempt[2,3]	Taxable	Taxable
Athletic facilities	Exempt if substantially all use during the calendar year is by employees, their spouses, and their dependent children, and the facility is operated by the employer on premises owned or leased by the employer.		
De minimis (minimal) benefits	Exempt	Exempt	Exempt

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Special Rules for Various Types of Fringe Benefits Cont.

Dependent care assistance	Exempt[3] up to certain limits, $5,000 ($2,500 for married employee filing separate return).		
Educational assistance	Exempt up to $5,250 of benefits each year. (See Educational Assistance , later in this section.)		
Employee discounts	Exempt[3] up to certain limits. (See Employee Discounts , later in this section.)		
Employee stock options	See Employee Stock Options , later in this section.		
Employer-provided cell phones	Exempt if provided primarily for noncompensatory business purposes.		
Group-term life insurance coverage	Exempt	Exempt[2,4,6] up to cost of $50,000 of coverage. (Special rules apply to former employees.)	Exempt
Health savings accounts (HSAs)	Exempt for qualified individuals up to the HSA contribution limits. (See Health Savings Accounts , later in this section.)		
Lodging on your business premises	Exempt[2] if furnished on your business premises, for your convenience, and as a condition of employment.		

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Special Rules for Various Types of Fringe

Meals	Exempt[2] if furnished on your business premises for your convenience.		
	Exempt if de minimis.		
No-additional-cost services	Exempt[3]	Exempt[3]	Exempt[3]
Retirement planning services	Exempt[5]	Exempt[5]	Exempt[5]
Transportation (commuting) benefits	Exempt[2] up to certain limits if for rides in a commuter highway vehicle and/or transit passes ($270) or qualified parking ($270). (See Transportation (Commuting) Benefits , later in this section.)		
	Exempt if de minimis.		
Tuition reduction	Exempt[3] if for undergraduate education (or graduate education if the employee performs teaching or research activities).		
Working condition benefits	Exempt	Exempt	Exempt

[1] Or other railroad retirement taxes, if applicable.
[2] Exemption doesn't apply to S corporation employees who are 2% shareholders.
[3] Exemption doesn't apply to certain highly compensated employees under a program that favors those
[4] Exemption doesn't apply to certain key employees under a plan that favors those employees.
[5] Exemption doesn't apply to services for tax preparation, accounting, legal, or brokerage services.
[6] You must include in your employee's wages the cost of group-term life insurance beyond $50,000 worth of coverage, reduced by the amount the employee paid toward the insurance. Report it as wages in boxes 1, 3, and 5 of the employee's Form W-2. Also, show it in box 12 with code "C." The amount is subject to social security and Medicare taxes, and you may, at your option, withhold federal income tax.

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Accounting for Personal Use of Car

- Annual Lease Value Method
- Cents Per Mile Method
- Commuting Rate Method

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Paid Family Leave

- The **Families First Coronavirus Response Act (FFCRA or Act)** requires certain employers to provide employees with paid sick leave or expanded family and medical leave for specified reasons related to COVID-19. The Department of Labor's (Department) Wage and Hour Division (WHD) administers and enforces the new law's paid leave requirements. These provisions will apply from the effective date through December 31, 2020.
- Generally, the Act provides that employees of covered employers are eligible for:
- *Two weeks (up to 80 hours) of* ***paid sick leave*** *at the employee's regular* rate of pay where the employee is unable to work because the employee is quarantined (pursuant to Federal, State, or local government order or advice of a health care provider), and/or experiencing COVID-19 symptoms and seeking a medical diagnosis; or
- *Two weeks (up to 80 hours) of* ***paid sick leave*** *at two-thirds the employee's regular rate of pay* because the employee is unable to work because of a bona fide need to care for an individual subject to quarantine (pursuant to Federal, State, or local government order or advice of a health care provider), or to care for a child (under 18 years of age) whose school or child care provider is closed or unavailable for reasons related to COVID-19, and/or the employee is experiencing a substantially similar condition as specified by the Secretary of Health and Human Services, in consultation with the Secretaries of the Treasury and Labor; and

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Paid Family Leave FFCRA– cont.

- *Up to an additional 10 weeks of* ***paid expanded family and medical leave*** *at two-thirds the employee's regular rate of pay* where an employee, who has been employed for at least 30 calendar days, is unable to work due to a bona fide need for leave to care for a child whose school or child care provider is closed or unavailable for reasons related to COVID-19.
- **Covered Employers:** The paid sick leave and expanded family and medical leave provisions of the FFCRA apply to certain public employers, and private employers with fewer than 500 employees.[1] Most employees of the federal government are covered by Title II of the Family and Medical Leave Act, which was not amended by this Act, and are therefore not covered by the expanded family and medical leave provisions of the FFCRA. However, federal employees covered by Title II of the Family and Medical Leave Act are covered by the paid sick leave provision.

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Taxable Fringe Benefits

- Fringe benefits are subject to income tax withholding and employment taxes.
- Fringe benefits include cars you provide, flights on aircraft you provide, free or discounted commercial flights, vacations, discounts on property or services, memberships in country clubs or other social clubs, and tickets to entertainment or sporting events.
- In general, the amount you must include is the amount by which the fair market value of the benefit is more than the sum of what the employee paid for it plus any amount the law excludes.

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Taxable Fringe Benefits

- For employment tax and withholding purposes, you can treat taxable noncash fringe benefits as paid on a pay period, quarter, semiannual, annual, or other basis. But the benefits must be treated as paid no less frequently than annually.
- You can add the value of taxable fringe benefits to regular wages for a payroll period and figure income tax withholding on the total as well as applicable social security and Medicare taxes. Or you can withhold federal income tax on the value of fringe benefits at the flat 22% rate that applies to supplemental wages

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Latest Trends in Fringe Benefits

- Flexible/Remote Work Hours
- Qualified retirement planning services
- Identity Protection Services

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Flexible/Remote Work Hours

- Remote working is more feasible than ever before.
- This is essentially a no-cost benefit.
- Using an accountable plan for this purpose

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Summary

- Generally, the employee’s gross income for tax purposes includes everything received from the employer in payment for services for the employer.
- IRC Section 132 defines benefits that are excluded from taxable earnings and not reported on the employee’s Form W-2.
- Employers must either collect the tax from the employee or pay the tax on behalf of the employee. If the employer pays the taxes due on fringe benefits on behalf of the employee, those taxes paid become additional income.

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Resources

- IRS COVID-19-Related Tax Credits for Paid Sick and Paid Family Leave: Overview
- IRS Pub 15B Table 2.1 Special ‘Rules for Various Types of Fringe Benefits.
- Payroll Practice Fundamentals, 2020 edition

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QUESTIONS?

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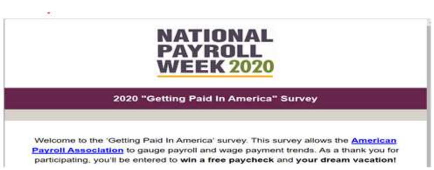
Happy National Payroll Week September 7 – 11, 2020



NATIONAL PAYROLL WEEK 2020

2020 "Getting Paid In America" Survey

Welcome to the 'Getting Paid In America' survey. This survey allows the **American Payroll Association** to gauge payroll and wage payment trends. As a thank you for participating, you'll be entered to **win a free paycheck** and **your dream vacation!**

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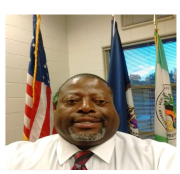
Thank You



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