



TOPICS

Tom Mansell

Fringe Benefits
Accountable Plans



Tom Mansell

Thomas Mansell, FSLG Specialist - (707) 535-3830

Work hours – 7:00 to 4:30 Pacific time

- **Alaska**
- **California**
- **American Samoa**



FRINGE BENEFITS

What is a Fringe Benefit?

- Any property, service or cash (other than salary) provided by an employer
- Taxable unless specifically excluded by law
 - Example – exclusion of health care premiums under IRC § 106



FRINGE BENEFITS

How to treat Fringe Benefits

- Identify specific benefit provided to employee(s)
- Determine whether benefit is excluded by law
- Determine whether benefit is fully or only partially taxable



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Nontaxable Fringe Benefits

- No additional cost service
- Qualified employee discounts
- Working condition fringe
- De minimis fringe
- Qualified transportation expenses
- Qualified Moving Expense Reimbursements



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Taxable Fringe Benefits

- Include in employee's wages and on Form W-2 (never on Form 1099-MISC)
- Subject to Federal Withholding, Social Security and Medicare (as applicable to the employee)
- Even if benefit is received by or for spouse or dependent of employee



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Accountable Plan Provisions

- Business Connection
- Adequate 'accounting' by employee in a reasonable period of time
- Excess reimbursement returned by employee in a reasonable period of time



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Nonaccountable Plan

- Does not meet ALL 3 requirements for an accountable plan
- Benefit is fully taxable when paid



FRINGE BENEFITS

Non-travel related fringe benefits

- Clothing
- Equipment
- Professional Licenses
- Prizes
- Awards
- Bonuses



FRINGE BENEFITS

Club Dues & Gymnasium Memberships

Generally cannot exclude dues paid on behalf of employees (including initiation fees) for membership in any club organized for:

- Business
- Pleasure
- Recreation
- Other social purpose



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Club Dues & Gymnasium Memberships

Rule applies to any membership organization if one of its principal purposes is either:

- To conduct entertainment activities for members or their guests, or
- To provide members or their guests with access to entertainment facilities



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Club Dues & Gymnasium Memberships

Cannot exclude dues paid to:

- Country clubs
 - Golf and athletic clubs
 - Airline clubs
 - Hotel clubs
 - Clubs operated to provide meals under circumstances generally considered to be conducive to business discussions
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Athletic Facilities

The use of athletic facilities on an employer's premises by current or former employees, or their family members, may be excludable from wages under IRC § 132(j)(4). See Publication 15-B



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Employee Discounts

- Provide for employees to obtain property or services from their employers at prices below those available to the general public
- When the property/services are offered to the public for a fee and the same amenities are offered to employees at a reduced price, there may be a taxable benefit to the employees



FRINGE BENEFITS

Employee Discounts

- Benefit excludable if it meets the requirements of a qualified employee discount
- Qualified employee discount does not apply to property or services provided by another employer under a reciprocal agreement.
- See Treasury Regulations § 1.132-3(a)(3)



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Employee Discounts

- Cannot exclude from wages of highly compensated employees any part of the value of a discount that is not available on the same terms to all employees, or a group of employees defined under a reasonable classification that does not favor highly compensated employees
- See Treasury Regulations § 1.132-3(a)(6)



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Prizes and Awards

- Cash prizes and awards are always taxable
- Performance awards are always taxable
- Non-cash prizes & awards - use fair market value



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Prizes and Awards – Exceptions

- Certain awards transferred to charities
 - Pulitzer, Nobel Peace Prize
- Certain employee achievement awards
 - Length of Service, Safety - not cash
- Nominal Holiday/Special Occasion Awards
 - Coffee mugs, plaques, etc.



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Remember – If the benefit is taxable

- Determine the Fair Market Value of the benefit
- Include it in Wages and on Form W-2



FRINGE BENEFITS

Travel-related fringe benefits

- Temporary Lodging
- Teacher Housing
- Per Diem Allowances
 - Lodging, meals and/or incidentals
 - Business related travel while away from home



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Travel-related fringe benefits

- Reimbursement of travel expenses for "temporary" assignments away from tax home generally not taxable to employee
- Employer must determine whether an assignment is realistically expected to last less than one year from when it begins
- See Revenue Rulings 93-86 & 99-7



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Travel-related fringe benefits – General Rule

- An assignment is generally considered ***temporary*** if it is realistically expected to be, and does in fact last, **one year or less**
- An assignment is generally considered ***indefinite*** if it is realistically expected to last, and does in fact last, for more **than one year**
- All relevant facts must be considered to determine whether the travel assignment was intended to be temporary or indefinite



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Travel-related fringe benefits – General Rule:

The foregoing are the general rules. All relevant facts must be considered to determine whether the travel assignment was intended to be temporary or indefinite.

See Revenue Rulings 93-86 and 93-7



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Lodging – Teacher Housing

IRC Section 119(d) : To resolve continuing disagreements between teachers and educational institutions, and the Internal Revenue Service, concerning the tax treatment of teacher housing, IRC § 119(d) was added



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Lodging – Teacher Housing

IRC § 119(d) provides an allowance for qualified campus housing, e.g., lodging to which the exclusion under IRC section 119(a) does not apply, and which is:

- Furnished by or on behalf of the educational institution to the employee, his/her spouse, and any of his/her dependents,
- Furnished for use as a residence, and
- Located on, or in the proximity of, a campus of the educational institution.



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Lodging – Teacher Housing

Unlike IRC § 119(a), under IRC § 119(d), it is not necessary that the lodging be furnished for the convenience of the employer or that the employee be required to accept the lodging as a condition of his/her employment



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Lodging – Teacher Housing

As previously stated, the statute, by its terms, provides the exclusion only for the value of meals and lodging furnished to the employee by or on behalf of his/her employer. Consequently, the lodging must be provided directly by, or indirectly at the behest of, the employer. Otherwise, the lodging will not be qualified campus housing and the IRC § 119(d) potential exclusion from income will not apply.



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Lodging – Teacher Housing

- If a teacher pays “adequate rent”, IRC § 119(d) may provide the teacher a partial exclusion from income of employer-provided qualified campus housing.
- “Adequate rent” means the lesser of 1) five percent of the fair market value of the employer-provided housing or 2) the average rental paid to the educational institution by individuals not affiliated with the institution for lodging that is comparable to that provided to the teacher



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Lodging – Teacher Housing

- If a teacher does not pay adequate rent for the housing, he/she receives additional wage income computed by subtracting the rent paid from the amount determined to be adequate rent
- Additional rules define the adequate rent calculation and fair market value.
- See IRC § 119 (d) for additional detail



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Meal Allowances While Traveling on Business

Meals away from home:

- Overnight
 - ✓ Accountable Plan - not taxable
- Not Overnight
 - ✓ Taxable as wages



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Meal Allowances When Not Traveling

- Meals with business meetings:
 - ✓ Not taxable if:
 - Clear business setting
 - Directly related
- Employer buys lunch:
 - ✓ Taxable as wages



FRINGE BENEFITS

Automobile Expenses – Employee provided vehicle

Used for Employer's business

2014 Federal Mileage Rate = \$0.56

- At this rate or less – non-taxable to employee
- Over this rate – excess taxable to employee
- If Employee chooses not to get reimbursed, cannot claim on personal tax return
- Substantiation required (accountable plan provisions)



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Automobile Expenses – Employee provided vehicle

Substantiation – Employee reports to Employer:

- Date, Purpose, Place of each trip
- Mileage 'at or near the time' incurred
- Examples: Diary, log, trip sheet, expense statement or similar record
- Commuting is always taxable – It is non-business travel



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Automobile Expenses – Employer Provided Vehicle

- Personal use is taxable
- Verified business use is not taxable (accountable plan provisions)
- Employee can reimburse employer for personal use



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Automobile Expenses – Employer Provided Vehicle

Personal Use:

- If no recordkeeping – value of ALL use is taxable
- If records kept – only personal use is taxable



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Automobile Expenses – Employer Provided Vehicle

Valuing Personal Use:

- Automobile Lease Valuation Rule
- Cents-Per-Mile Rule
- Commuting Rule



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Automobile Expenses – Employer Provided Vehicle

Lease Valuation Rule:

- Compute personal use
- Determine what employee would pay to lease auto (FMV)
- Multiply FMV by % of personal use



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Automobile Expenses – Employer Provided Vehicle

Special Accounting Rules:

- Employer can elect to defer withholding
 - Employer can withhold at 25%
 - For any benefit, employer may elect to treat benefits provided in November and December, to all employees, as paid in next year
 - Employer can elect not to withhold FIT
 - Employer must tell employee
 - Employer includes in wages/ W-2
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For Additional Information

Thomas Mansell

Federal State and Local Government Specialist

(707) 535-3830

Thank you for joining us today