Fringe benefits include things outside of wages arising from the employment relationship that may have tax consequences for employees. IRS rules dictate whether an item is taxable. This chapter includes discussion of several fringe benefits provided by the state, and the related tax treatment.

The Internal Revenue Code (IRC) 1.62-2, Reimbursements and Other Expense Allowance Arrangements, requires employers to report and withhold applicable taxes on payments to employees for business expense reimbursements that are reportable as compensation. This compensation is reported on employee W-2 Wage and Tax Statements and is subject to applicable federal withholding taxes, Medicare taxes, and contributions to SBS.

Each agency is responsible for informing its employees of potential tax liability associated with business expense payments. Employees should be advised that withholding taxes on business expenses will reduce net pay when earnings are recorded in the payroll system. Employees should also be advised the taxable portions of business expense payments will be reported as compensation on their W-2 Wage and Tax Statements.
Agencies are required to record all reportable employee business expense payments in the payroll system. Generally, when reportable and non-reportable (excludable) business expenses arise from an event, all business expenses must be appropriately recorded in the payroll system. IRS guidelines require payroll tax withholding on taxable compensation within a reasonable period of time following the event that generated the earnings.

To accomplish this, agencies are encouraged to make all payments for fringe benefits directly in the payroll system. Agencies may choose to process payments through the financial system as long as both the taxable and nontaxable portions are recorded in the payroll system no later than one pay period following reimbursement of the expense.

When an employee who is separating from state service or going on seasonal leave-without-pay (SLWOP) has outstanding reportable business expenses, the expenses must be recorded in the payroll system prior to separation to ensure sufficient gross pay from which to take applicable taxes and deductions.

### AAM 320.100 Travel Reimbursements (06-19)

The State of Alaska operates under an accountable plan for travel expenses as is defined in IRS Publication 463. There are three rules which must be met for an accountable plan:

1. The expenses must have a business connection. The criteria for business connection is whether the work-related expenses would be deductible by the employee if claimed as a deductible business expense on the employee’s personal return.

2. The expenses must be adequately accounted to the employer within a reasonable period of time.

3. Any excess reimbursement or allowance must be returned to the employer within a reasonable period of time.

Items reimbursed that do not meet the definition of an accountable plan are taxable to employees and reported as wages in box 1 of the W-2 Wage and Tax Statement.

In the majority of situations, AAM 60 - Travel follows the IRS rules to limit the tax burden of state travelers. There are some exceptions, where the AAM is superseded by bargaining unit agreements or the AAM itself establishes policy which results in a taxable travel benefit to travelers, including members of boards and commissions. The following list
includes some of, but not necessarily all, travel reimbursements that create taxable income to travelers.

- Any amount of the M&IE allowance that exceeds federal CONUS and OCONUS rates for the location.
- Any travel reimbursements for meals and incidental expense allowance paid to employees in travel status that does not include an overnight stay. The Internal Revenue Service requires the traveler to be away from home overnight to exclude meal reimbursements from taxable income.
- All lodging allowances that do not meet the definition of a Per Diem according to IRS Publication 463 are taxable. If the Per Diem definition is met, the amount that exceeds the CONUS or OCONUS rates for the location are taxable.
- Labor, Trades, and Crafts employees assigned to work a distance of more than 50 miles away from their permanent duty station, are entitled to a commuting allowance in lieu of lodging allowance if they choose to return to their residence on their own time rather than obtain overnight lodging. If mileage is provided, the amount of the allowance that exceeds the IRS mileage rate is taxable. If mileage is not provided, the entire amount is taxable.
- Allowances paid to employees for non-commercial lodging.
- All payments for meals or lodging to a traveler while on assignment at the traveler’s duty station.
- All travel expenses paid an employee while on a business assignment in one location expected to last more than one year at the time the travel begins, or from the time it is known the travel will last more than one year until the end of the travel. Vacation leave, sick leave, and brief returns to the duty station do not start the one year time limit again.

AAM 320.110 Accounting for Taxable Travel (10-19)

The payroll system travel expense earnings and deduction transactions are coded to an agency’s designated travel expense appropriation units and BSA 2139 (the business expense balance sheet account) when the transactions process in a production payroll. When these payroll transactions are interfaced with the financial system, they post expenditures and reductions of expenditures against the agency travel expense appropriation unit and the business BSA. Each agency must designate an appropriation unit that reports to an agency’s budget as the travel expense appropriation unit. Agencies are responsible for adjusting travel expense reimbursements from agency travel expense appropriation units to appropriation units to which the expense should be charged. Prior year adjustments to agency travel expense appropriation units must be processed in the financial system by August 31.
State travel policies apply to moves, but a move will include tax implications.

IRS regulations require all moving expense payments made to or on the behalf of an employee to be reported on the employee's W-2.

The following table is useful in categorizing these costs by the financial system account code and the payroll system earnings code.

<table>
<thead>
<tr>
<th>IRIS BSAs</th>
<th>IRIS Earnings Code</th>
<th>IRIS Earnings Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2028</td>
<td>380</td>
<td>Move Household Goods</td>
</tr>
<tr>
<td>2029</td>
<td>371</td>
<td>Move Travel/Lodging</td>
</tr>
<tr>
<td>2030</td>
<td>379</td>
<td>Move Meals</td>
</tr>
<tr>
<td>2031</td>
<td>372</td>
<td>Premove Travel</td>
</tr>
<tr>
<td>2032</td>
<td>373</td>
<td>Premove Meals</td>
</tr>
<tr>
<td>2033</td>
<td>374</td>
<td>Temporary Quarters Lodging</td>
</tr>
<tr>
<td>2034</td>
<td>375</td>
<td>Temporary Quarters Meals</td>
</tr>
<tr>
<td>2035</td>
<td>376</td>
<td>Other Moving Expenses</td>
</tr>
</tbody>
</table>

See [AAM 60.315](#) for the definition of moving terms.

A Moving Expense Report is available in the [Moving Reimbursement Payroll Report](#) workbook on the Division of Finance website. The Moving Expense Report is used for summarizing taxable transactions for entry into the payroll system.

The IRS has specific rules regarding reporting recoveries that are based on the timing of recoveries. An employee’s current year repayment of moving expense reimbursements received in the same calendar year may be offset against current year wages thereby reducing taxable earnings reported on the employee’s W-2 tax statement.

The IRS prohibits employers from offsetting recoveries of prior calendar year compensation against a subsequent year’s earnings. Moving expenses reimbursed to an employee in a prior calendar year and repaid by the employee in a later year remain reportable to the employee for that year because the employee received and had use of the funds during that year. It is the employee’s responsibility to seek the advice of a tax

Alaska Administrative Manual – Payroll
Fringe Benefits
320.4
consultant about current IRS procedures for deducting repaid moving expenses in subsequent years.

**AAM 320.220 Accounting for Moving Expenses in the Financial System (04-06)**

Moving expenses are to be charged to the fiscal year in which expenses are incurred as provided in **AAM 25.160 Fiscal Year Obligations**. Moving expense reimbursements recovered in the same fiscal year as they were reimbursed are refunds of expenditures classified as abatements and are accounted for as credits to expenditures. Recoveries related to prior fiscal year authorizations are accounted for as unbudgeted revenues and recorded in the “Prior Year Reimbursement Recovery” account when received after August 31 of the fiscal year as stated in **AAM 40.010 Revenue Term Definitions**. Recoveries of moving expenses that apply to prior fiscal year moving expenditures must be accounted for as unrestricted receipts in a prior year recovery account and may not reduce the agency’s current year expenditure appropriations. However, if recovery is to an appropriation receiving federal or other receipts earned under a recovery program, it must be accounted for as an increase to restricted revenue prior year reimbursement recovery.

**AAM 320.300 State Vehicle Usage (10-19)**

An employee's personal use of state vehicles is a taxable benefit to the employee and must be reported on the employee's W-2. Note that Internal Revenue Service (IRS) considers commuting between the employee's home and work personal use of a state vehicle and a taxable benefit to the employee. This is true regardless of whether the employer directs the employee to take the vehicle home.

The policies that govern state vehicle use are under the authority of the Department of Transportation and Public Facilities. These policies and procedures are located on DOTPF’s web page. Vehicle usage is covered within Policy and Procedure Number 11.04.010. This policy includes the rules for state vehicle use, outlines approval requirements, defines exempted vehicles, and also includes a log for reporting purposes.

The IRS regulations require that "adequate records or sufficient evidence" to support claimed business use of employer provided vehicles must be maintained. The state utilizes the commuter value rule for calculating the taxable income. This method requires maintenance of a log or record of the number of commuting trips made during the year. The log in the vehicle policy was developed to substantiate business use by summarizing personal use commuting trips. However, if sufficient information is not
submitted, the annual lease valuation rule must be used to calculate the value of this fringe benefit.

The commuting valuation rule values the personal use at a flat rate for each commute, $1.50 one way or $3.00 round trip. This rule can be used if logs are maintained and all the following conditions are met:

1. the vehicle is used in the employer's business;
2. the employer requires the employee to commute to and from work in the vehicle;
3. the employer has a written policy prohibiting personal use other than commuting and de-minimis personal use;
4. the employee, except for de-minimis personal use, does not use the vehicle for any personal purpose other than commuting; and
5. the employee's compensation is less than $156,000.

The annual lease valuation rule values the personal use based on the cost of the vehicle or its fair market value (blue book or equivalent) on the first day it is made available for personal use. The fair market value of the vehicle must be revalued as of January 1 after each full four-year period. The annual lease value for the vehicle is derived from comparing the vehicle’s fair market value to an IRS table (IRS Publication 15-B). The lease value from the IRS table is multiplied by total personal use percentage to determine taxable vehicle income. Fuel is not included in the annual lease valuation, so if fuel is provided by the state, an additional 5.5 cents per mile driven for personal use or the actual cost of gasoline multiplied by the personal use percentage must be added to the calculated taxable income.

Monthly, the employee using a state vehicle for commuter purposes must complete a vehicle commuter log, obtain supervisory approval, and submit the log to the departmental vehicle managers. (For a copy of the letter issued to all state vehicle users, see the State Employee Fringe Benefits page located on the Division of Finance website.) This form can be obtained from DOTPF Policy and Procedure 11.04.010. The vehicle managers will review the form to ensure the supervisor has signed off on the vehicle use, proper approvals were obtained for the commuting activity, and check to ensure the calculation of the fringe benefit is complete and accurate. Once all the department vehicle logs have been compiled, this information is forwarded to the technical services group for entry into the payroll system. The vehicle commuter logs must be received by Payroll Services no later than the 6th day of the month, or the first previous business day if the 6th of the month falls on a weekend or holiday.
If personal commuting has occurred, but the employee has not submitted a commuting log, the lease value method will be used to calculate the fringe benefit of this commuting activity. If the employee cannot substantiate the amount of personal versus business use of the assigned vehicle, one hundred percent of the lease value of the vehicle will be used to calculate the value of this fringe benefit. Assistance in the calculation of the fringe benefit using the lease value rule should be obtained from the State Accountant.

Payroll Services will use the payroll system earnings code defined by the Division of Finance to enter the value calculated on the vehicle commuter log into the payroll system. This information will then be reported on the employee’s W-2 at the end of the year.

AAM 320.310 Employer Provided Housing (01-22)

Due to various circumstances, it may be necessary for the state to provide housing to their employees at their assigned duty station. The housing provided may be state-owned facilities, or facilities rented or leased by the state on behalf of employees.

Housing provided to employees at their duty station may be nontaxable if certain criteria are met.

- IRS housing criteria – The first three are IRS exclusions related to housing - all of these must be met for exclusion.
  - The housing must be furnished on the business premises. The business premise is defined as the employee’s place of work.
  - The housing must be for the state’s convenience. As a result, there must be substantive non-pay business reasons for providing employee housing.
  - Employees must be required to accept the housing as a condition of employment. For example, the employees must accept the lodging to properly perform their duties.
  - **Travel or transient status** – If the housing is used for employees in a travel or transient status, it is excludable under the IRS criteria for our accountable plan, similar to other travel reimbursements.
  - **Bunkhouse** – Bunkhouses by their nature are transient buildings that offer basic sleeping accommodations to house employees in locations for the convenience of the
State. Occupants do not enjoy the privacy of a housing situation that is conducive to personal life. These facilities are not considered taxable compensation by the State of Alaska.

- **Amenities** – Some of the structures that employees temporarily occupy for work do not have basic necessities of running water or electricity. These are deemed by the State to not meet the definition of housing for purposes of determining taxable compensation.

- **Alternative lodging available** – Some work is performed in remote locations where there are no other alternatives besides the State-provided housing for employees. In these situations, the housing is considered to meet the IRS criteria listed above.

- **Unsuitable lodging alternatives** – The State has business in many locations that lack a real estate rental market of acceptable housing. This is the fundamental reason that the State acquired most of the housing that is provided to employees. It is also the reason that some bargaining unit contracts contain language characterizing housing as good, acceptable, or poor. When all available alternative housing units in a location are accurately classified as poor, the housing is considered to meet the IRS criteria listed above.

If any of these conditions are not satisfied, the value of the provided housing in excess of the amount paid for it by the employee is considered income and should be taxable to the employee. Taxable housing must be reported to Payroll Services in the Division of Finance for entry into the payroll system as compensation.

Departments that provide housing are responsible for making determinations its taxability using these criteria and their knowledge of the locations. Annual updates on housing provided to employees and the tax determinations must be submitted to the State Accountant each November.

<table>
<thead>
<tr>
<th>AAM 320.320</th>
<th>No-Additional-Cost Services (07-06)</th>
</tr>
</thead>
</table>

There may be circumstances where the State of Alaska provides an employee a benefit that is also offered to customers in the ordinary course of business. Generally, no-additional-cost services are excess capacity services. The value of this no-additional-cost benefit may be excluded from employees' wages if all of the criteria below are met:
• It does not cause the state to incur any substantial additional costs. Any lost revenue should be considered as a cost of providing this benefit.
• The service must be offered to customers in the ordinary course of the line of business in which the employee performs substantial services.
• The benefit must be available to all employees within the same line of business so as to not discriminate in favor of a select group of employees or highly compensated employees.

For additional information on this topic see http://www.irs.gov/ under Publication 15 B.

<table>
<thead>
<tr>
<th>AAM 320.330 Parking (07-06)</th>
</tr>
</thead>
</table>

If free parking is unavailable to employees near their place of work, the department may choose to pay for all or a portion of the employee’s parking. However, this benefit to the employee may be a taxable fringe benefit. In order to be considered nontaxable, the amount paid by the employer cannot exceed the monthly maximum dollar limitation established by the IRS. For these limits, please see http://www.irs.gov/ under Publication 15-B.

<table>
<thead>
<tr>
<th>AAM 320.340 Cell Phones, Tablets and Electronic Equipment (07-12)</th>
</tr>
</thead>
</table>

Employees with a business need may be issued state equipment or authorized to receive an allowance for business use of their personal equipment. Employees may be allowed to choose the option they prefer as long as it meets the needs of the department.

The business need and use of electronic equipment provided by public funds must be directly related to the assigned duties and responsibilities of the user and support the delivery of state services. Justification by the supervisor for either issuing a device (cell phone, Smartphone or tablet) or approving an allowance is required and must include one of the following situations:

• Public/personal safety requirement is an integral part of the employee's job duties
• The employee needs to be accessible outside of normal business hours worked
• The employee is a critical decision maker
• A meaningful portion of work is conducted outside the office or in the field
• The immediate responsiveness of the employee is routinely required for urgent state business

Use of State Equipment

Under the Executive Branch Ethics Act, state employees and members of boards and commissions may not use state equipment for personal gain, which is broadly defined. Generally state equipment is not a substitute for an employee’s own equipment, so personal use should be “collateral or incidental” to official duties.

The Department of Law regulation 9 AAC 52.050(b) and other guidance provides for allowable levels of personal use for state-owned equipment as follows:

• Cell phones and Smartphones (e.g., iPhones, Blackberries) when used for voice calls – Personal use that does not exceed the greater of 30 minutes or 5% of the minutes allowance under the applicable services plan is presumed insignificant, but any personal use that results in increased cost must be reimbursed to the state in full. (In the case of unlimited use plans, personal use may not exceed the greater of 30 minutes or 5% of total use.)

• Field or satellite phones – Personal use is presumed insignificant so long as the use does not interfere with state business and the employee reimburses the state for all incremental costs associated with personal use.

• Laptop computers, Smartphones, and tablets when used with data access – Personal use is presumed insignificant so long as it does not occur during scheduled work hours, there is no additional cost to the state and such use is acceptable under ISP 172 Business Use/Acceptable Use.

State equipment may never be used for partisan political purposes, except to reply to an email advising such use is prohibited and provide alternate contact information.

Personal use of state equipment will be presumed to violate the Ethics Act if the use exceeds the permitted use under these standards. The employee is required to reimburse the state for all increased or additional costs attributable to personal use.

If improper personal use of state equipment is identified, the supervisor should conduct an investigation with guidance from human resource managers and in consultation with the designated ethics supervisor. In case of serious violations, the designated ethics supervisor should consult with the state ethics attorney.
Disciplinary action to address misuse of state equipment should be taken by the work supervisor after consulting with the appropriate human resource manager and the designated ethics supervisor. In most instances, absent serious violations of the Ethics Act, misuse of equipment should result in direction to stop the misuse and/or a demand for reimbursement to the state for personal benefits received. Serious violations, include recurring misuse after direction to stop or misuse resulting in substantial personal benefit, may warrant more serious discipline up to and including termination. Serious violations should also be referred to the Department of Law for review and possible issuance of an ethics complaint.

Allowances

Due to guidance from the IRS, cell phone allowances will be treated as a nontaxable fringe benefit effective for payroll processing beginning in October 2011. However, no such exception from listed property has been made for tablets; therefore, data plan allowances received for tablets are a taxable fringe benefit to the employee.

Allowances for the type of device authorized by the supervisor are requested using the Allowance for Employee owned Electronic Communication Device form. An allowance is not authorized unless approved by the Administrative Services Director or designee, and cannot be effective for periods earlier than the date signed by the supervisor on the form.

An employee is allowed a voice plan allowance and data plan allowance to cover multiple devices, however; more than one allowance for the same type (e.g. voice or data plans) requires a waiver by the Commissioner of the Department of Administration.

Allowances are renewed every December with listings reviewed and authorized by the Administrative Services Director or designee in each department. All employee owned assets used for state business must comply with state security standards.

Employees do not waive their right to privacy by accepting a state allowance to fund a personal cell phone or smartphone that will be used in part for state business. All records relating to state business are public records, even though generated on personal equipment. State business records are subject to review and disclosure unless the Public Record Act permits or requires them to be withheld. Personal emails and call records are not public records. However, because business related calls and emails could be intermingles with personal, it is possible that a state official or a court could be required to review all records related to an individual employee's personal equipment in order to locate those related to state business.