



# Payroll fringe benefits reporting & taxation: What employers should know

December 2, 2020  
Webinar starts at noon CT



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Outsourcing Services



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# Administration



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# Administration



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at the end of today's presentation.

# About the speakers



## **Cindy McSwain**

Senior Vice President  
Outsourcing Services

Leads AGH's outsourcing services

10+ years in outsourcing accounting/payroll

10+ years in audit experience

5+ years in tax experience

Member of AICPA, KSCPA, and numerous civic organizations

# About the speakers



## **Pamela Nelson**

Payroll Supervisor  
Outsourcing Services

Handles payroll processing, reporting and tax filings for multi-state, multi-site companies

Expertise in technology, employee benefits and payroll



# Welcome!

## 2020 taxes

AGHUniversity.com on-demand webinars

## 1099 webinar

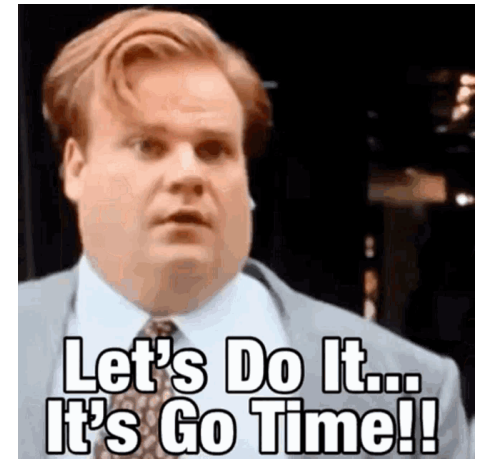
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## Fringe benefits

Today – Let's do this!

## Year-end payroll

AGHUniversity.com upcoming webinars



# Polling question #1

Please answer for continuing education credit

# Learning objectives

The key takeaways



# Learning objectives

Identify various types of fringe benefits

Learn the taxability and reporting requirements

Understand the substantiation requirements



# Compensation

A quick review



# Compensation defined



“...all income from whatever source derived, including (but not limited to) compensation for services, including fees, commissions, fringe benefits, and similar items...”

**(IRC §61)**

# Compensation defined



“...gross income means all income from whatever source derived, unless excluded by law. Gross income includes income realized in any form, whether in money, property or services. Income may be realized, therefore, in the form of services, meals, accommodations, stock, or other property, as well as cash.”

**(IRS Regulations §1.61-1)**

# Compensation breakdown



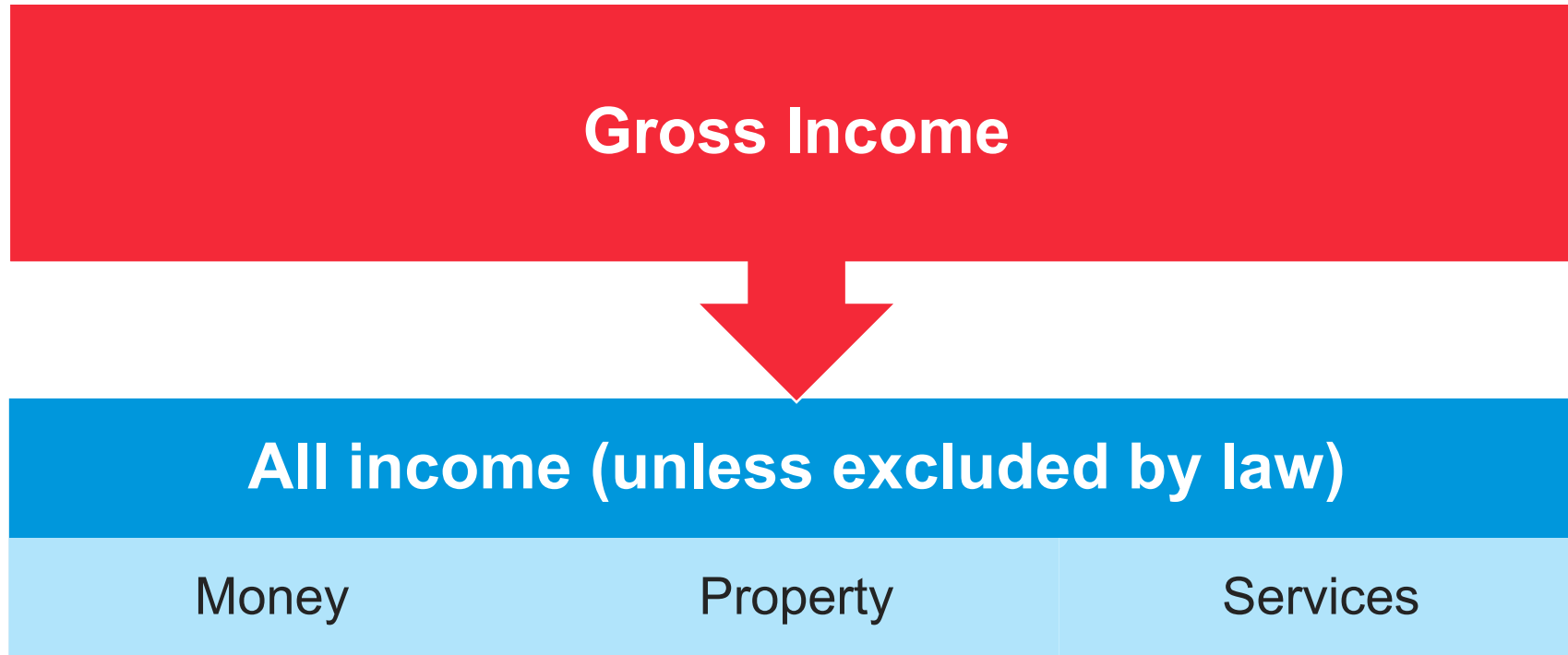
**Gross Income**



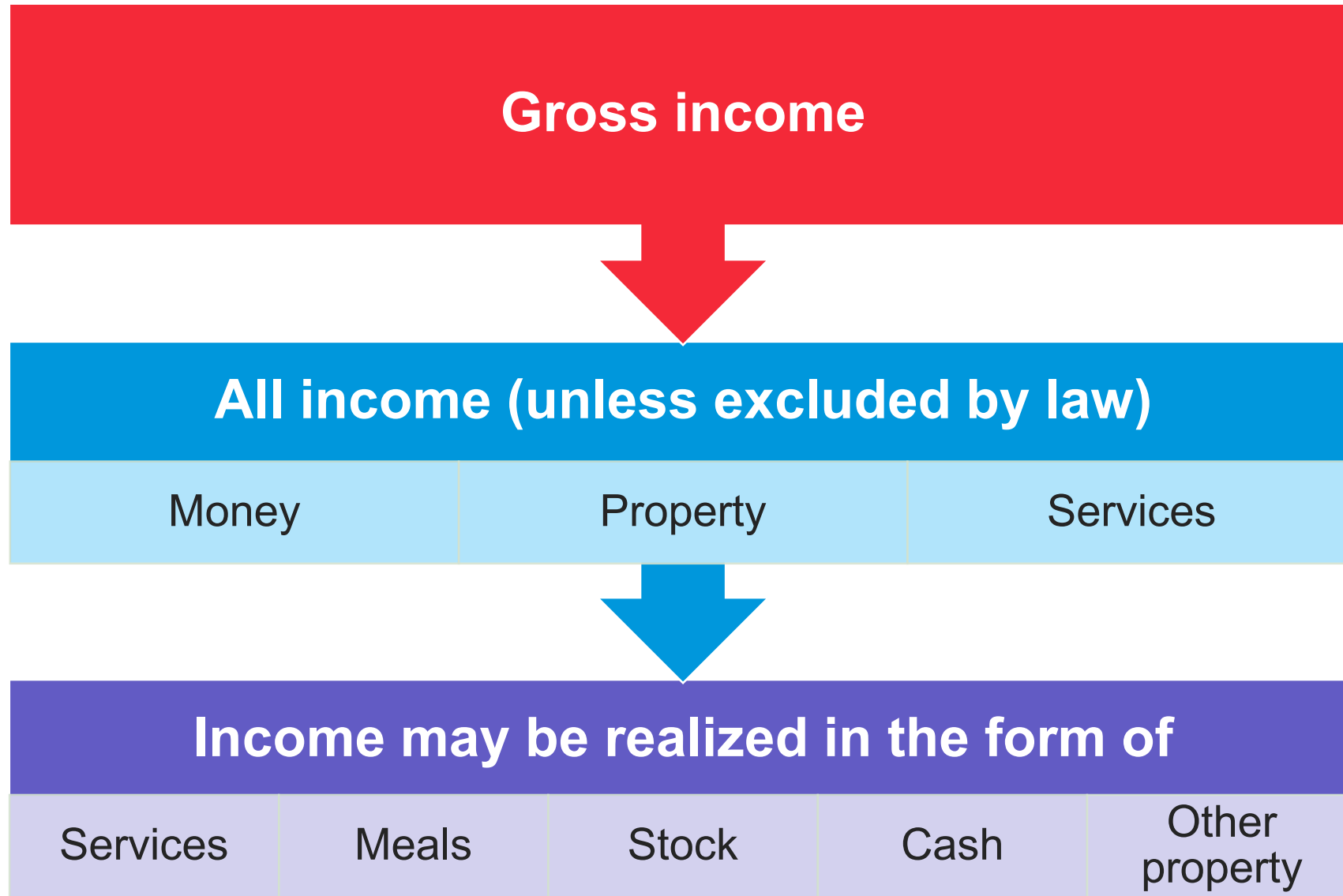
# Compensation breakdown



# Compensation breakdown



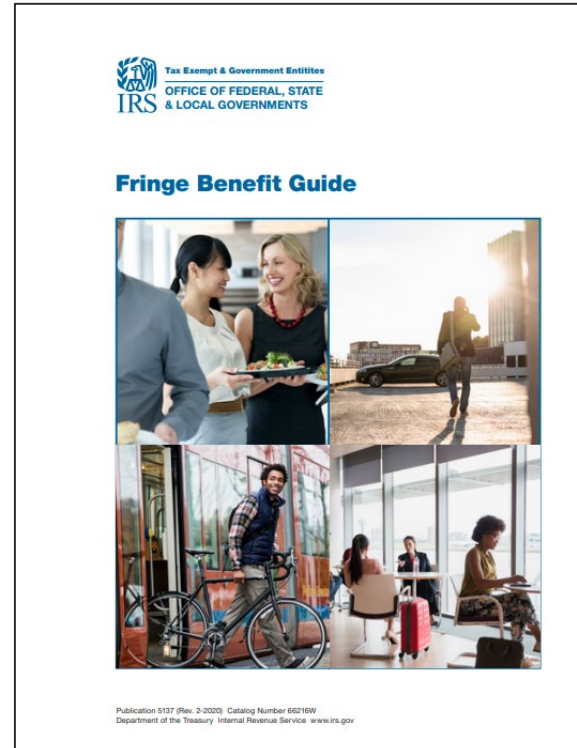
# Compensation breakdown



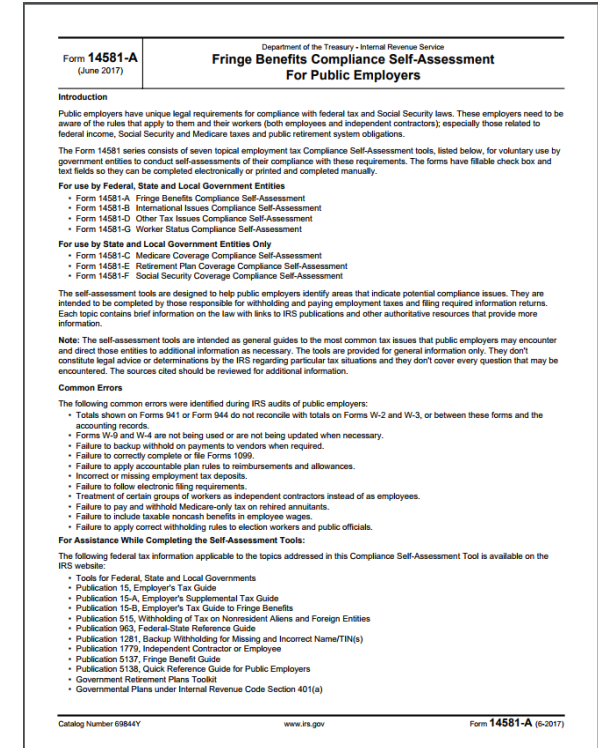
# Fringe benefits & the IRS



IRS Publication 15-B  
Employer's Tax Guide  
to Fringe Benefits



IRS Publication 5137  
Fringe Benefit Guide  
**Updated Feb 2020**



IRS Form 14581-A  
Fringe Benefits  
Compliance  
Self-Assessment

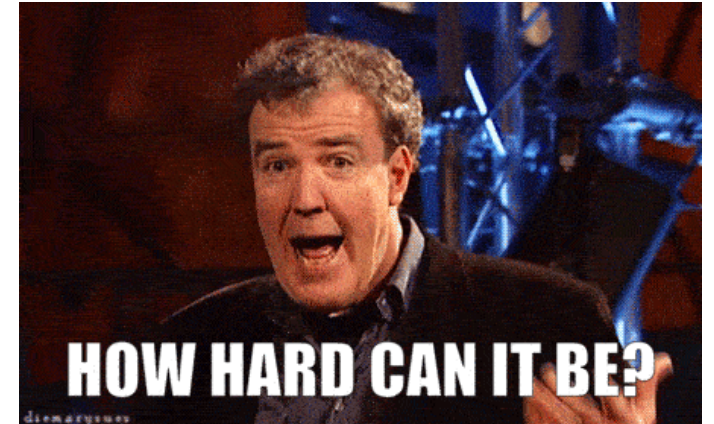
# Polling question #2

Please answer for continuing education credit



# Learning objective

Identify fringe benefits





# Identify



# Fringe benefits

No dollar limit on  
**de minimis** fringe benefits





# Fringe benefits

No dollar limit on  
de minimis fringe benefits

**All cash benefits** are taxable.



# Fringe benefits

No dollar limit on  
de minimis fringe benefits

All cash benefits are taxable.

Date of “payment” **optional** for non-cash benefits as long as **reported at least annually**.

**Withholding** on fringe benefits:

- Add to regular wages
- Option flat tax rate (22% federal)



# Common fringe benefits

Overview and description



# Working conditions

Includes property or services



Non-taxable if employee could have deducted on personal return



Must be business related



Must be substantiated



# De minimis

Based on frequency, not value



Can exclude personal use of business equipment if minimal



Group meals, employee picnics



Does **NOT** include cash



# Employee discounts

Property or service must be offered to the public as part of business



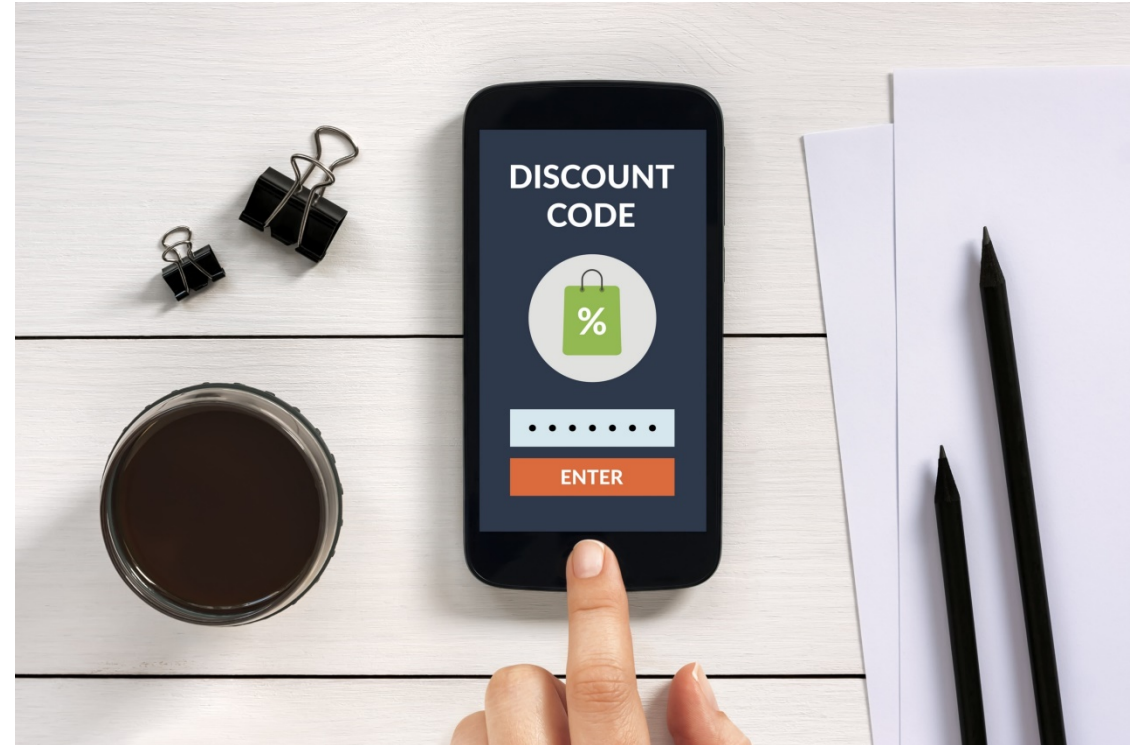
For property, cannot exceed employer's gross profit percentage times the public price



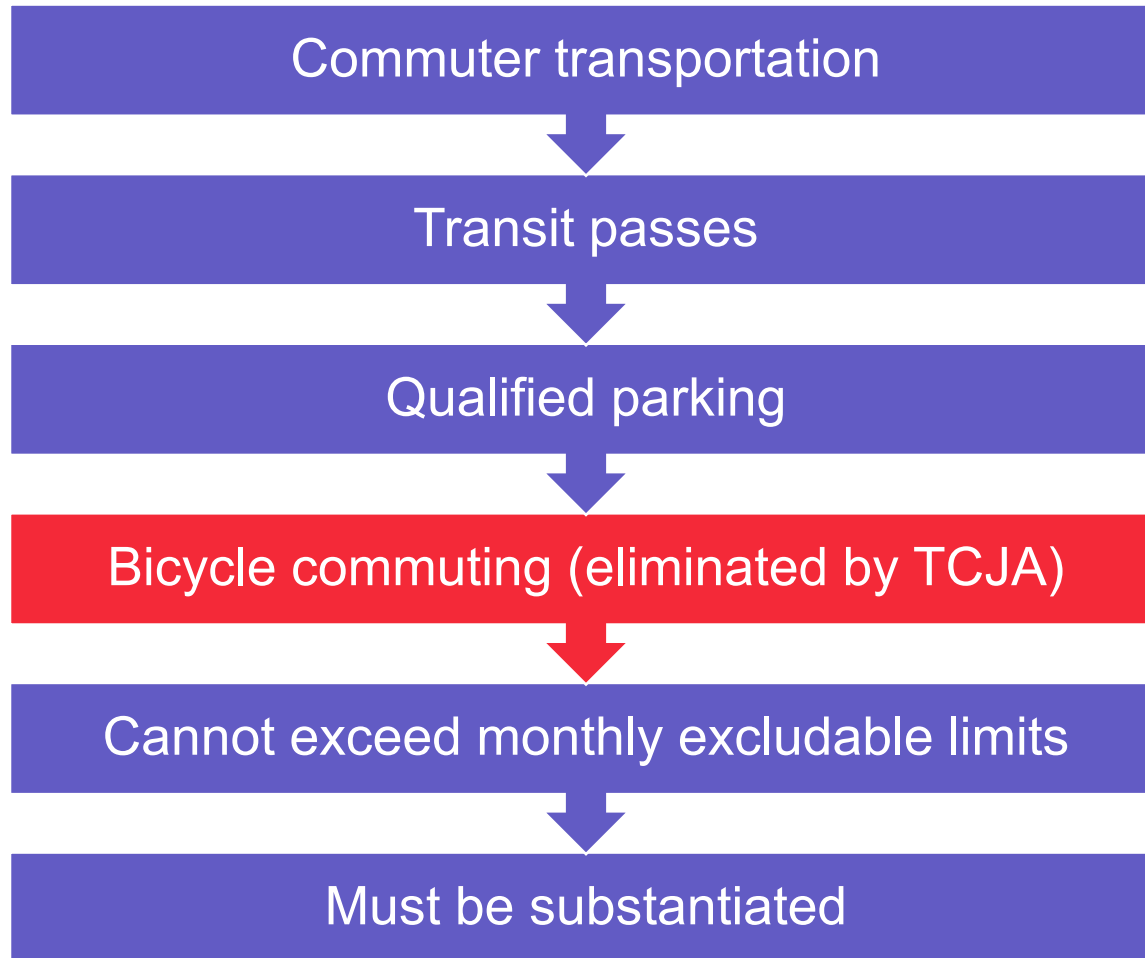
For services, no more than 20% of public price



Cannot be excluded for HCE if discount not offered to all employees



# Qualified transportation





# Travel

Must be under accountable plan  
(AKA substantiation)



Travel must be temporary



Employee must be away from tax home



Per diems based on location



Per diems can't extend past one year



# Transportation

Must be documented



Local business travel



May include air, train, bus, shuttle, and taxi fares



May be a mileage reimbursement



Can include tools and parking fees





# Moving expenses

**100% taxable**



# Meals & lodging

Meals are excludable if provided on premises and for the employer benefit



Meals while traveling fall under travel expenses



Lodging is excludable if provided on premises, for the employer benefit, and a requirement

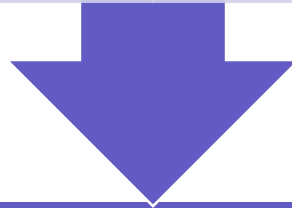


# Employee vehicle

## Employee vehicle reimbursement

Substantiate

Excludable if at or less than IRS stated rates



## Methods for employer provided vehicle

Lease valuation rule

Cents-per-mile rule

Commuting rule



# Equipment & allowances

Equipment that is business expense



Reimbursements must be substantiated



Stipends and allowances are not excludable



Uniforms excludable if required and not street wear





# Awards & prizes

Cash is **ALWAYS** wages



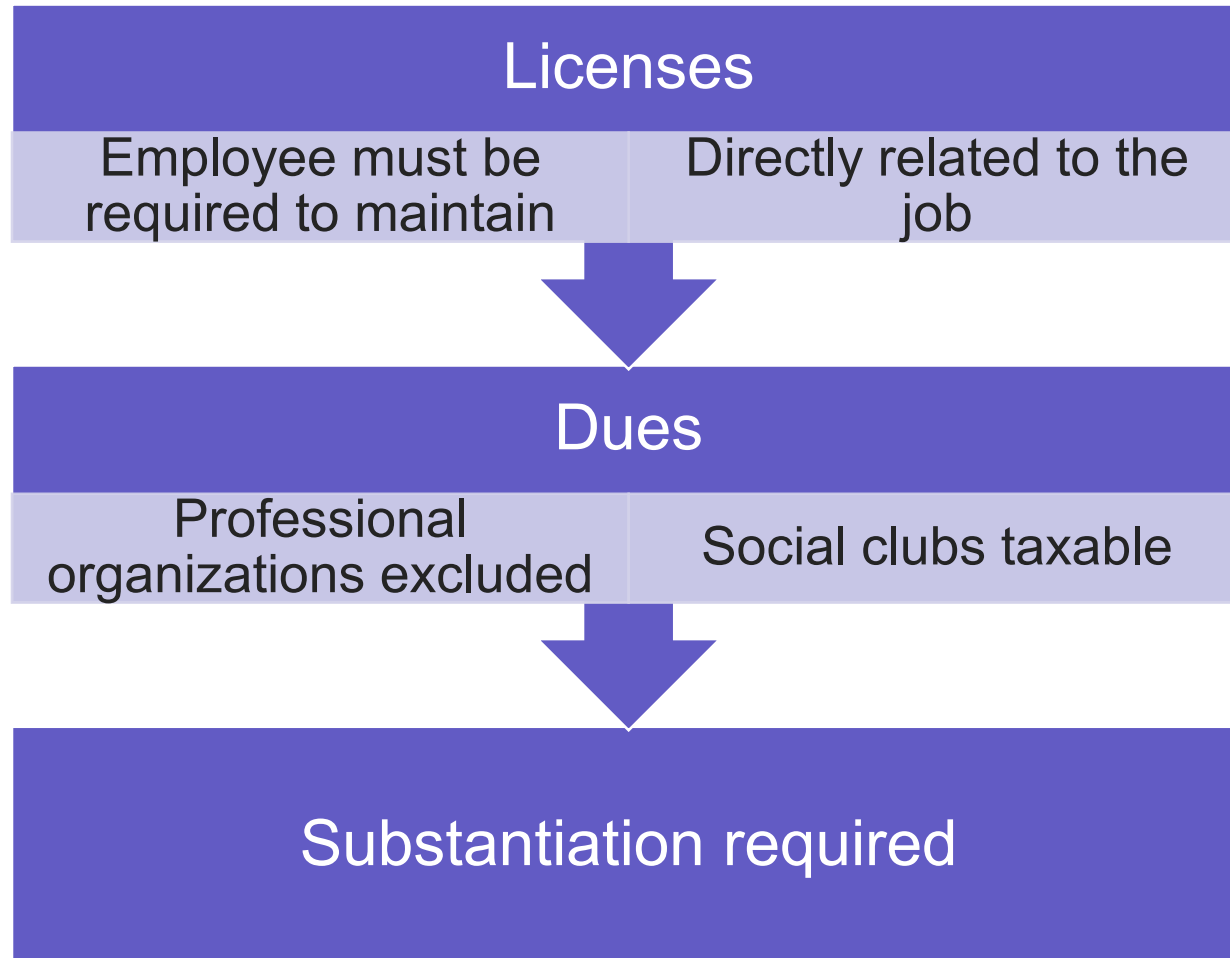
Random drawings, recognition and performance awards includable



Certain non-cash may be excluded with specific criteria

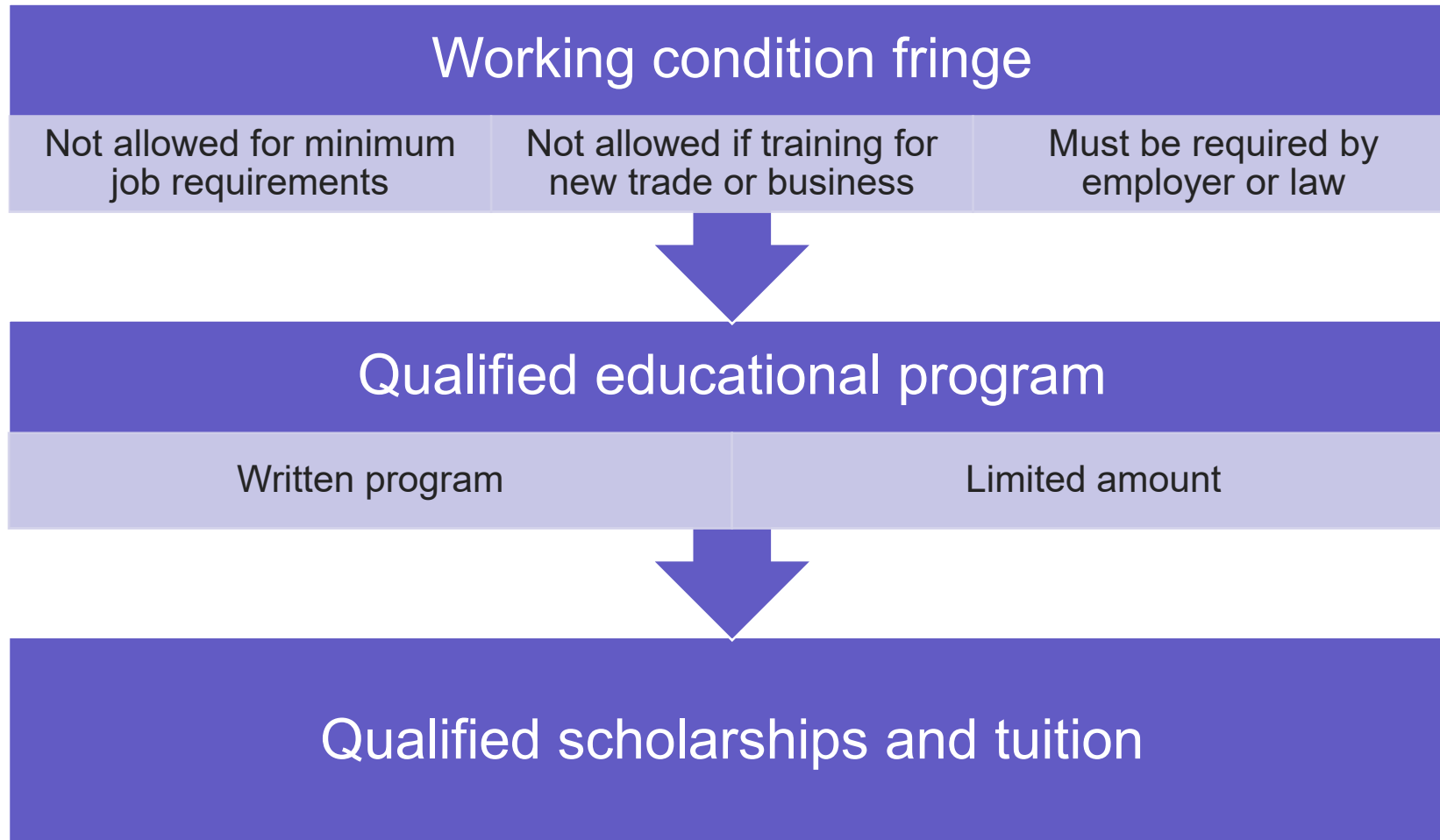


# Professional licenses & dues





# Education reimbursement



# Dependent care assistance

May provide household and dependent care to allow employee to work



Must not favor HCEs



Must believe employee can exclude from gross income



Include in box 10 of W-2



Same limits as cafeteria plan



# Group term life insurance

Policy in excess of \$50,000



Discriminatory plans include entire policy value



Consider terminated employees and last paycheck



Spouse or dependent policy greater than \$2,000 makes entire policy taxable

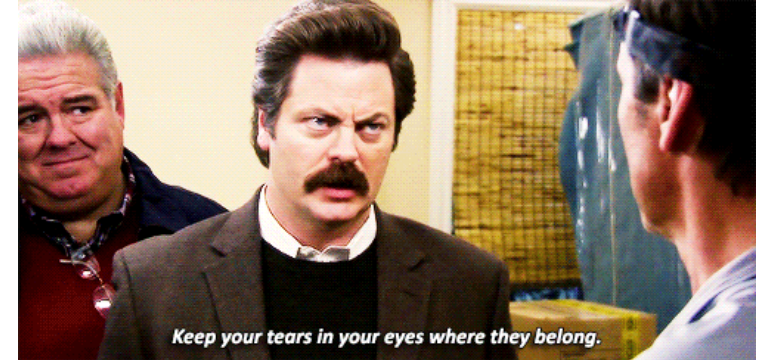


# Polling question #3

Please answer for continuing education credit

# Learning objective

Taxability & reporting requirements





# Supplemental wage payments

## Anything that isn't regular wages

- Bonus
- Back pay
- Commissions

Federal withholding at 22%

State withholding – check the rates



# Supplemental wage payments

## #1 - Supplemental Method

Bonus	1,000.00
Supplemental FIT (22%)	-220.00
Supplemental KS SIT (5%)	-50.00
FICA (6.2%)	-62.00
Medicare (1.45%)	-14.50
	<hr/>
	<b>653.50</b>

## #2 - Concurrent with Other Wages (W-4)

Salary	1,500.00
Bonus	1,000.00
Taxable wages	<hr/>
	2,500.00
W-4 FIT (M-0)	-189.17
K-4 SIT (M-0)	-58.13
FICA (6.2%)	-155.00
Medicare (1.45%)	-36.25
	<hr/>
	<b>2,061.45</b>

## #3 - No Concurrent Wages (Calculated)

1. Add supplemental wages to regular wages and calculate tax on total
2. Reduce tax calculated by tax already withheld on regular check

### Regular Check

Salary	1,500.00
W-4 FIT (M-0)	-77.92
K-4 SIT (M-0)	-27.13
FICA (6.2%)	-93.00
Medicare (1.45%)	-21.75
	<hr/>
	<b>1,280.20</b>

### Bonus Check

Bonus	1,000.00
Concurrent less Regular Check FIT	-111.25
Concurrent less Regular Check SIT	-31.00
FICA (6.2%)	-62.00
Medicare (1.45%)	-14.50
	<hr/>
	<b>781.25</b>



# Paying employee taxes


## Grossing up earnings

Gross earnings = Desired net payments / (100% - total tax %)

**Note: Be careful when:**

- nearing the FICA wage base limit
- nearing the \$200,000 additional Medicare tax wage threshold
- nearing the \$1 million threshold for supplemental withholding

# Paying employee taxes

Gross Up Calculator		FIT Supplemental rate = 22%												
		KSSIT Supplemental rate = 5%												
Things to consider:														
Have they met the FICA thresshold?														
What about the \$200,000 limit for FHI?														
Has the employee earned > \$1 million?														
								Tax Rates						
Employee Name	Net Pay Amount	FICA	FHI W/H	FIT W/H	SIT W/H	Total Pay	Addl Pay	FICA	FHI	FIT	SIT	effective tax rate	Gross	
Phillips, Sonia	1,500.00	142.31	33.28	504.97	114.77	2,295.33	795.33	6.20%	1.45%	22.00%	5.00%	34.65%	2,295.33	
McSwain, Cindy	2,500.00	237.18	55.47	841.62	191.28	3,825.55	1,325.55	6.20%	1.45%	22.00%	5.00%	34.65%	3,825.55	
Ingrim, Debby	10,000.00	-	240.66	-	-	10,240.66	240.66	0.00%	2.35%	0.00%	0.00%	2.35%	10,240.66	
		-	-	-	-	-	-	6.20%	1.45%	0.00%	0.00%	7.65%	-	
		379.49	329.41			16,361.55	2,361.55							

# Reporting

W-2s & coding

# Wage and tax reconciliation

Earning Code	FIT	FICA	FHI	FUTA	SIT	SUI	Year End	FIT	FICA	FHI	FUTA	SIT	SUI
BEREAVEMNT	1	1	1	1	1	1	8,354.03	8,354.03	8,354.03	8,354.03	8,354.03	8,354.03	8,354.03
BIRTHDAY	1	1	1	1	1	1	15,508.46	15,508.46	15,508.46	15,508.46	15,508.46	15,508.46	15,508.46
BONUS	1	1	1	1	1	1	769,490.79	769,490.79	769,490.79	769,490.79	769,490.79	769,490.79	769,490.79
FRINGE_INS	1	1	1	1	1	1	82,923.00	82,923.00	82,923.00	82,923.00	82,923.00	82,923.00	82,923.00
FRNG_TXPRP	1	1	1	1	1	1	5,145.00	5,145.00	5,145.00	5,145.00	5,145.00	5,145.00	5,145.00
HOLIDAY	1	1	1	1	1	1	96,866.20	96,866.20	96,866.20	96,866.20	96,866.20	96,866.20	96,866.20
JURY	1	1	1	1	1	1	661.68	661.68	661.68	661.68	661.68	661.68	661.68
OT	1	1	1	1	1	1	29,886.77	29,886.77	29,886.77	29,886.77	29,886.77	29,886.77	29,886.77
OTHER	1	1	1	1	1	1	64,876.50	64,876.50	64,876.50	64,876.50	64,876.50	64,876.50	64,876.50
REGULAR	1	1	1	1	1	1	4,481,779.41	4,481,779.41	4,481,779.41	4,481,779.41	4,481,779.41	4,481,779.41	4,481,779.41
REIMB_EXP	0	0	0	0	0	0	23,347.00	0.00	0.00	0.00	0.00	0.00	0.00
SEVERANCE	1	1	1	1	1	1	21,490.40	21,490.40	21,490.40	21,490.40	21,490.40	21,490.40	21,490.40
SICK	1	1	1	1	1	1	79,013.02	79,013.02	79,013.02	79,013.02	79,013.02	79,013.02	79,013.02
SUBS_OHLTH	1	0	0	0	1	0	24,593.74	24,593.74	0.00	0.00	0.00	24,593.74	0.00
THPRTY_LT	1	0	0	0	1	0	10,323.60	10,323.60	0.00	0.00	0.00	10,323.60	0.00
VACATION	1	1	1	1	1	1	244,966.01	244,966.01	244,966.01	244,966.01	244,966.01	244,966.01	244,966.01
							<u>5,959,225.61</u>						

# Wage and tax reconciliation

Earning Code	FIT	FICA	FHI	FUTA	SIT	SUI	Year End	FIT	FICA	FHI	FUTA	SIT	SUI
401K	-1	0	0	0	-1	0	283,017.20	-283,017.20	0.00	0.00	0.00	-283,017.20	0.00
401K_EECU	-1	0	0	0	-1	0	5,782.93	-5,782.93	0.00	0.00	0.00	-5,782.93	0.00
401K_EERTH	0	0	0	0	0	0	22,473.59	0.00	0.00	0.00	0.00	0.00	0.00
401K_ER	0	0	0	0	0	0	175,051.55	0.00	0.00	0.00	0.00	0.00	0.00
401K_LOAN	0	0	0	0	0	0	9,883.88	0.00	0.00	0.00	0.00	0.00	0.00
ADV_REPAY	0	0	0	0	0	0	400.00	0.00	0.00	0.00	0.00	0.00	0.00
CHILD_125	-1	-1	-1	-1	-1	-1	1,153.86	-1,153.86	-1,153.86	-1,153.86	-1,153.86	-1,153.86	-1,153.86
CHILD_SUP1	0	0	0	0	0	0	16,102.98	0.00	0.00	0.00	0.00	0.00	0.00
CHILD_SUP2	0	0	0	0	0	0	5,355.00	0.00	0.00	0.00	0.00	0.00	0.00
GARN_FEE	0	0	0	0	0	0	620.00	0.00	0.00	0.00	0.00	0.00	0.00
GARN_FIX	0	0	0	0	0	0	39,743.86	0.00	0.00	0.00	0.00	0.00	0.00
GARN_KS_P1	0	0	0	0	0	0	319.88	0.00	0.00	0.00	0.00	0.00	0.00
GARN_PCT1	0	0	0	0	0	0	160.00	0.00	0.00	0.00	0.00	0.00	0.00
GENESIS	0	0	0	0	0	0	2,070.00	0.00	0.00	0.00	0.00	0.00	0.00
HEALTH	0	0	0	0	0	0	15,873.44	0.00	0.00	0.00	0.00	0.00	0.00
HEALTH_125	-1	-1	-1	-1	-1	-1	261,403.58	-261,403.58	-261,403.58	-261,403.58	-261,403.58	-261,403.58	-261,403.58
HEALTH_ER	0	0	0	0	0	0	514,087.13	0.00	0.00	0.00	0.00	0.00	0.00
MEDSAV_125	-1	-1	-1	-1	-1	-1	5,134.66	-5,134.66	-5,134.66	-5,134.66	-5,134.66	-5,134.66	-5,134.66
YMCA_FAM	0	0	0	0	0	0	9,128.00	0.00	0.00	0.00	0.00	0.00	0.00
YMCA_SING	0	0	0	0	0	0	1,700.00	0.00	0.00	0.00	0.00	0.00	0.00
							1,369,461.54	5,379,386.38	5,633,269.17	5,633,269.17	5,633,269.17	5,379,386.38	5,633,269.17
												SIT	SUI
											State 1	5,251,581.31	5,500,040.72
											State 2	95,682.52	101,105.90
											State 3	32,122.55	32,122.55
												5,379,386.38	5,633,269.17
											Variance	0.00	0.00

# Wage and tax reconciliation

**Compare reconciliation  
to W-2s.**

**Compare W-2s to all 941s.**





# Year-end reporting issues

## Form W-2 Reference Guide for Box 12 Codes

<b>A</b>	Uncollected social security or RRTA tax on tips	<b>L</b>	Substantiated employee business expense reimbursements	<b>Y</b>	Deferrals under a section 409A nonqualified deferred compensation plan
<b>B</b>	Uncollected Medicare tax on tips (but not Additional Medicare Tax)	<b>M</b>	Uncollected social security or RRTA tax on taxable cost of group-term life insurance over \$50,000 (former employees only)	<b>Z</b>	Income under a nonqualified deferred compensation plan that fails to satisfy section 409A
<b>C</b>	Taxable cost of group-term life insurance over \$50,000	<b>N</b>	Uncollected Medicare tax on taxable cost of group-term life insurance over \$50,000 (but not Additional Medicare Tax) (former employees only)	<b>AA</b>	Designated Roth contributions under a section 401(k) plan
<b>D</b>	Elective deferrals under a section 401(k) cash or deferred arrangement plan (including a SIMPLE 401(k) arrangement)	<b>P</b>	Excludable moving expense reimbursements paid directly to members of the Armed Forces	<b>BB</b>	Designated Roth contributions under a section 403(b) plan
<b>E</b>	Elective deferrals under a section 403(b) salary reduction agreement	<b>Q</b>	Nontaxable combat pay	<b>DD</b>	Cost of employer-sponsored health coverage
<b>F</b>	Elective deferrals under a section 408(k)(6) salary reduction SEP	<b>R</b>	Employer contributions to an Archer MSA	<b>EE</b>	Designated Roth contributions under a governmental section 457(b) plan
<b>G</b>	Elective deferrals and employer contributions (including nonelective deferrals) to a section 457(b) deferred compensation plan	<b>S</b>	Employee salary reduction contributions under a section 408(p) SIMPLE plan	<b>FF</b>	Permitted benefits under a qualified small employer health reimbursement arrangement
<b>H</b>	Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan	<b>T</b>	Adoption benefits	<b>GG</b>	Income from qualified equity grants under section 83(i)
<b>J</b>	Nontaxable sick pay	<b>V</b>	Income from exercise of nonstatutory stock option(s)	<b>HH</b>	Aggregate deferrals under section 83(j) elections as of the close of the calendar year
<b>K</b>	20% excise tax on excess golden parachute payments	<b>W</b>	Employer contributions (including employee contributions through a cafeteria plan) to an employee's health savings account (HSA)		

See [Box 12 Codes](#).

# Year-end reporting issues

## **Employer-provided health insurance**

- Greater than 250 employees
- Excludes Indian tribal governments

Deferred compensation

Third-party sick pay



# Summary



# Polling question #4

Please answer for continuing education credit



**MARTY, WHATEVER HAPPENS**



**DON'T GO TO 2020!!**



# Thank you for attending



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