

# Fringe benefits reporting & taxation: What employers should know



The image features a hand-drawn diagram on a white background with various office supplies like pens and paperclips. At the top, the word "BENEFITS" is written in large, blue, hand-drawn letters. Arrows point from this central word to several categories of benefits: "PAID VACATION" (with a beach chair and umbrella icon), "MEAL BREAKS" (with a fork and knife icon), "SOCIAL" (partially visible), "PERKS & BONUSES" (top right), "ACHIEVEMENT AWARD" (with a trophy icon), "EMPLOYEES ALLOWANCE" (bottom center), and "PAY RAISE" (with a stack of money icon).

**BENEFITS**

**December 1**

Webinar starts at 1pm CT

# Continuing education credits available

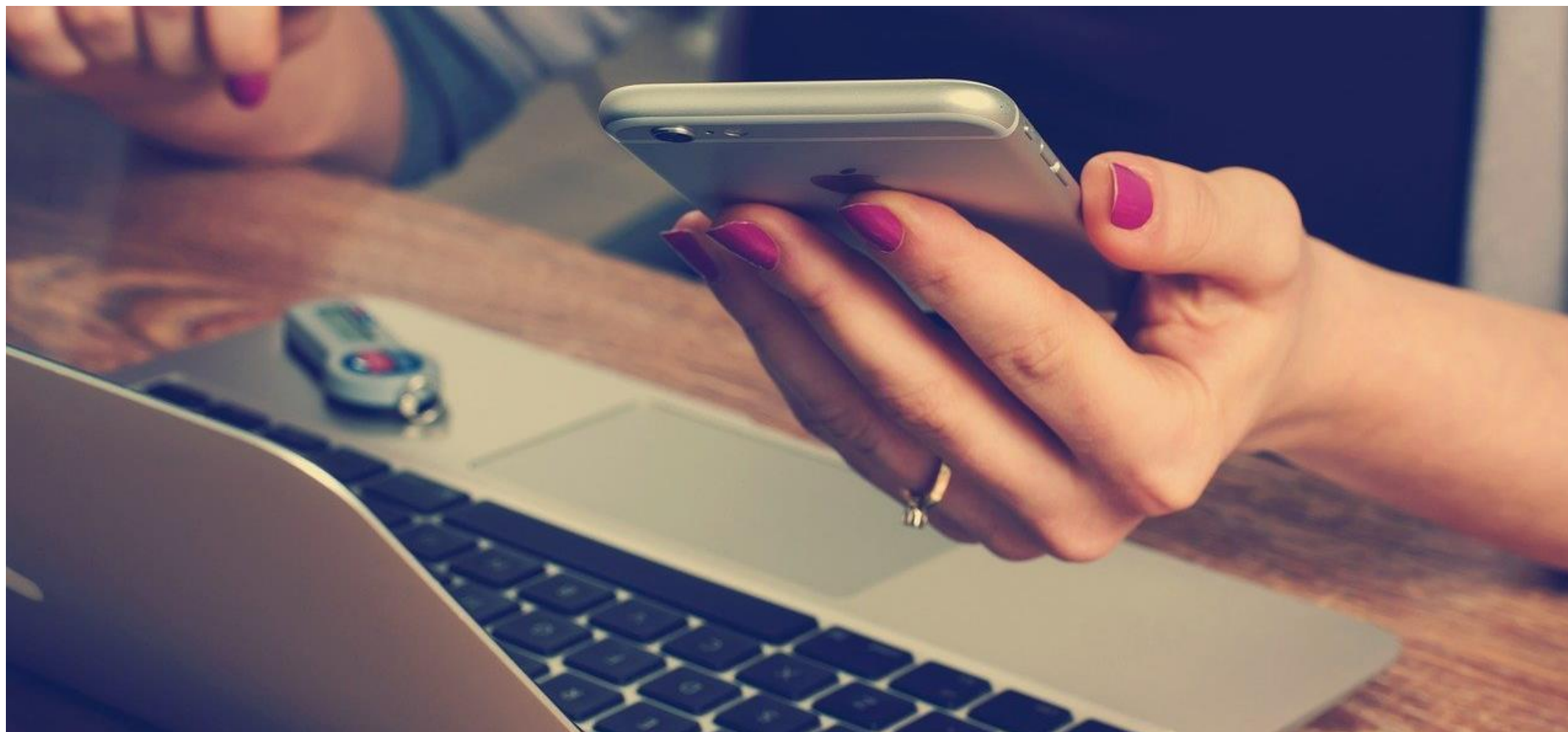
Please answer at least three polling questions.



Recording & slides will be available.



For best audio quality, call in by phone



Questions? Ask away!



# Don't forget our survey





# Cindy McSwain

Cindy leads AGH's outsourcing services team.

10+ years experience in outsourcing accounting & payroll. 10+ years in audit. 5+ years in tax.

Member of AICPA, KSCPA, and numerous civic organizations.





# Mike Ludlow

Mike leads AGH's payroll team, handling payroll processing, reporting and tax filings.

Expertise in both technology and employee benefits consulting as well as payroll.





# Welcome!



▶ 1099 compliance (11/16)  
On-Demand webinar on aghuniversity.com

📁 Fringe benefits webinar (12/1)  
Today - Let's do this!

🥂 Year-end payroll (12/15)  
AGHUniversity.com  
upcoming webinars



# Polling question #1



# Learning objectives



Learn the taxability & reporting requirements of various fringe benefits

Understand the substantiation requirements

Identify various types of fringe benefits



Section 1 | A quick review of

# Compensation





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

IRC §61





“ ...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

IRS Regulations §1.6-1

Gross income



# Compensation breakdown

IRS Regulations §1.6-1

Gross income

All income (unless excluded by law)





# Compensation breakdown

IRS Regulations §1.6-1

Gross income

All income (unless excluded by law)

Money, property, and services



# Compensation breakdown

IRS Regulations §1.6-1

Gross income

All income (unless excluded by law)

Money, property, and services

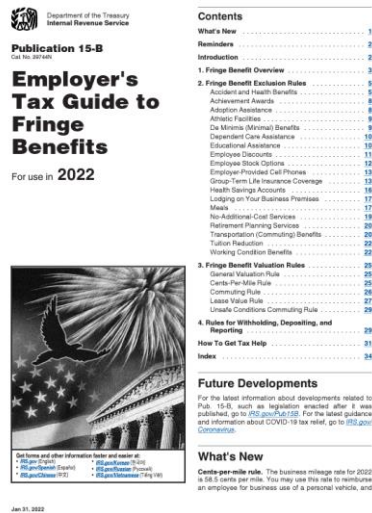
Income may be realized in the form of

Services, meal, stock, cash, and other property



# Fringe benefits & the IRS

Helpful resources for you



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



IRS Publication 5137 Fringe Benefit Guide



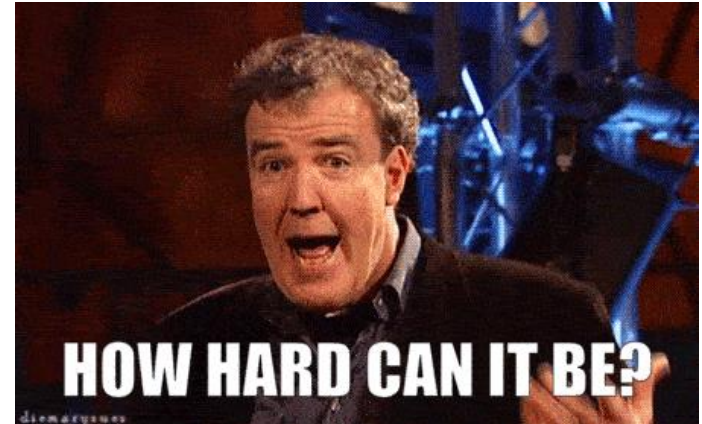
IRS Form 14581-A Fringe Benefits Compliance Self-Assessment



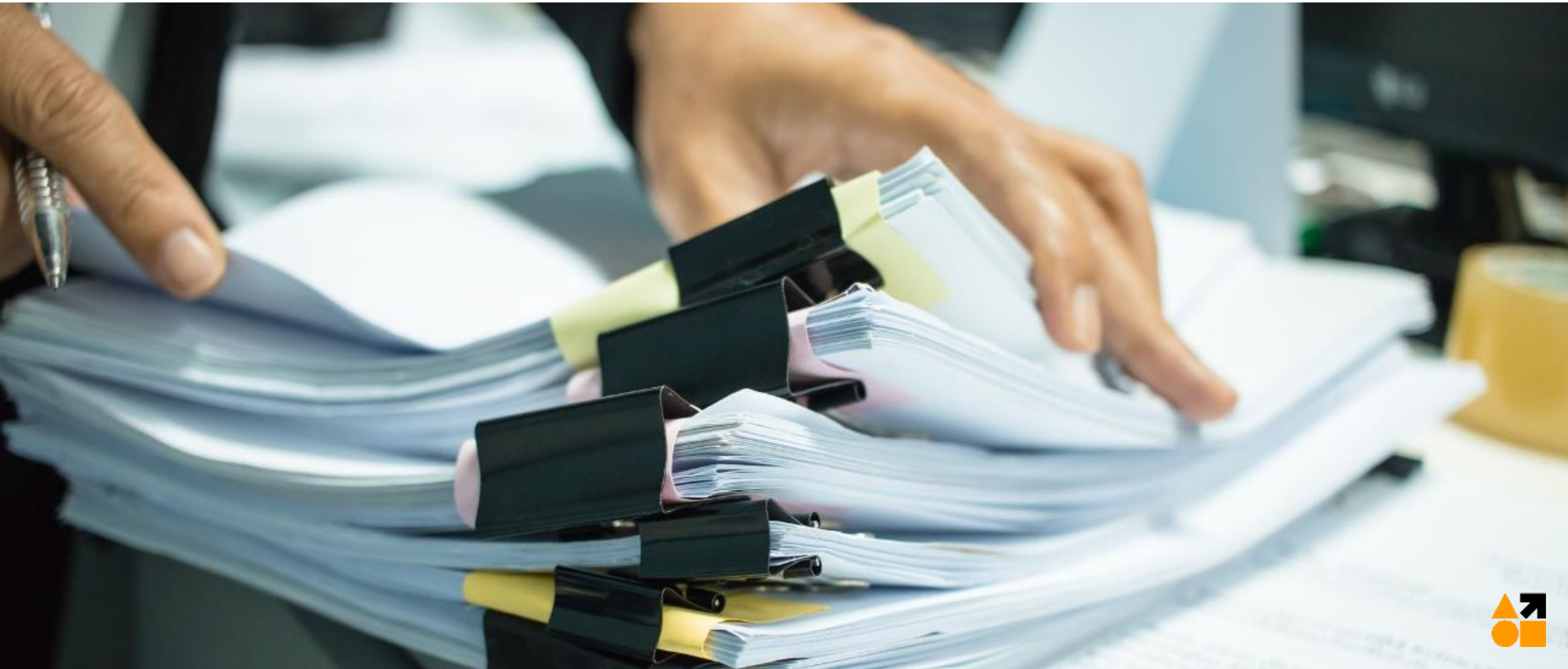
# Polling question #2



Identify fringe  
benefits



# Identifying fringe benefits



# Fringe benefits

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



Remember

# Fringe benefits

- No dollar limit on de minimis fringe benefits
- **All cash benefits** are taxable



Remember



# 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)



Remember

# Common fringe benefits



# Working condition

Includes property or services

Non-taxable if employee could deduct 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

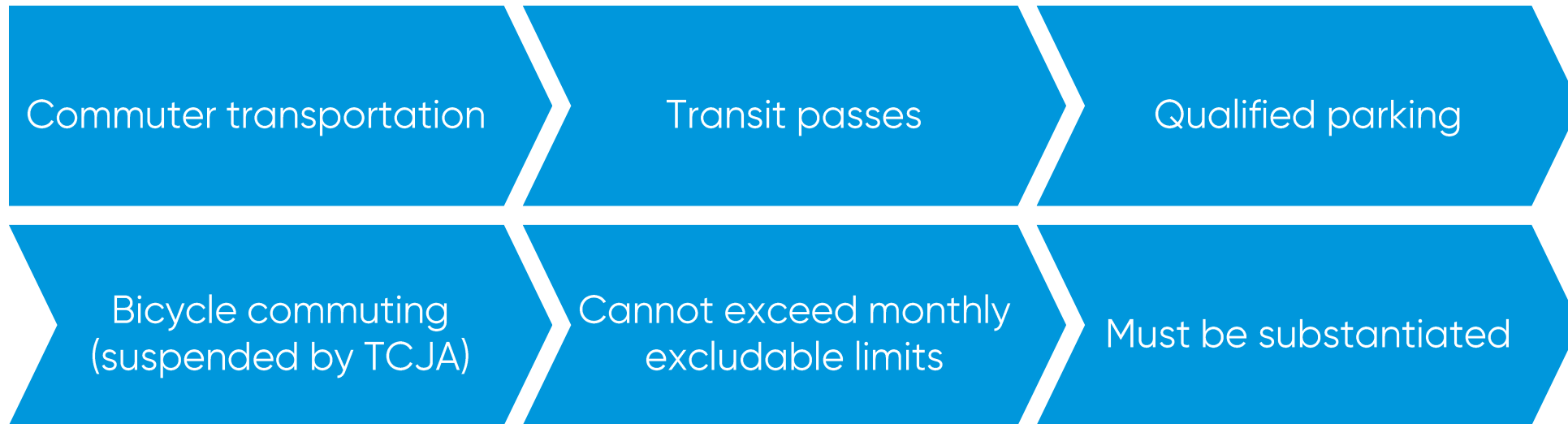
For property, cannot exceed employer's gross profit percentage times the public price

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

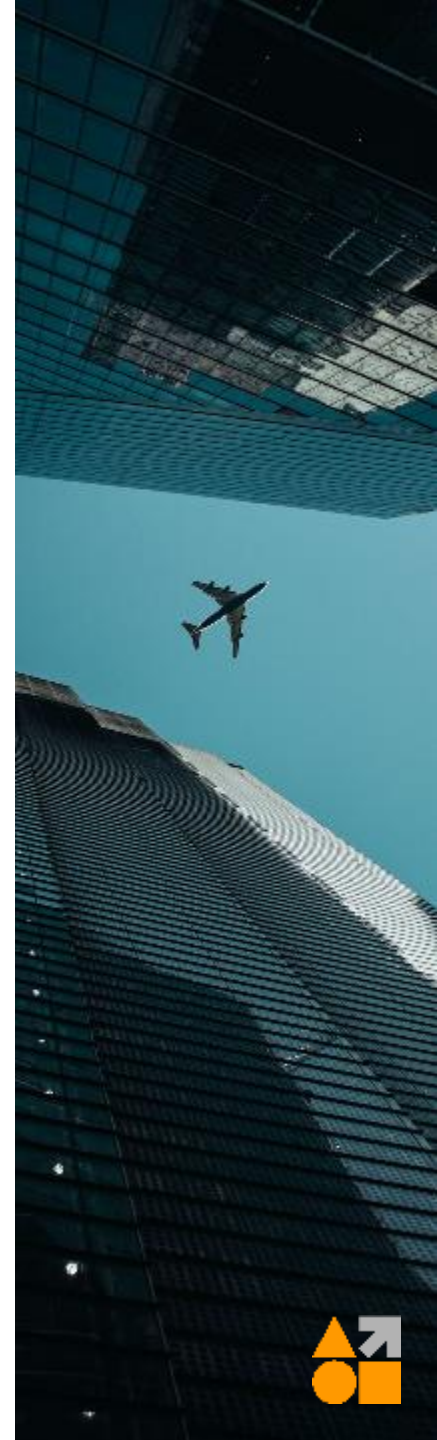
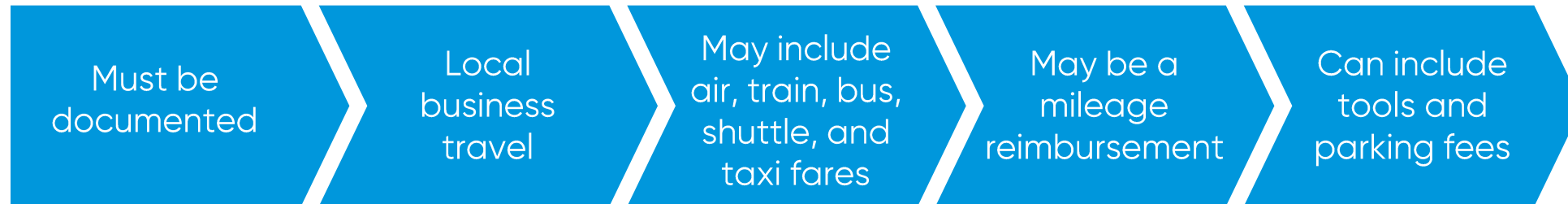
Employee  
must be  
away from  
tax home

Per diems  
based on  
location

Per diems  
cannot  
extend past  
one year



# Transportation





# 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



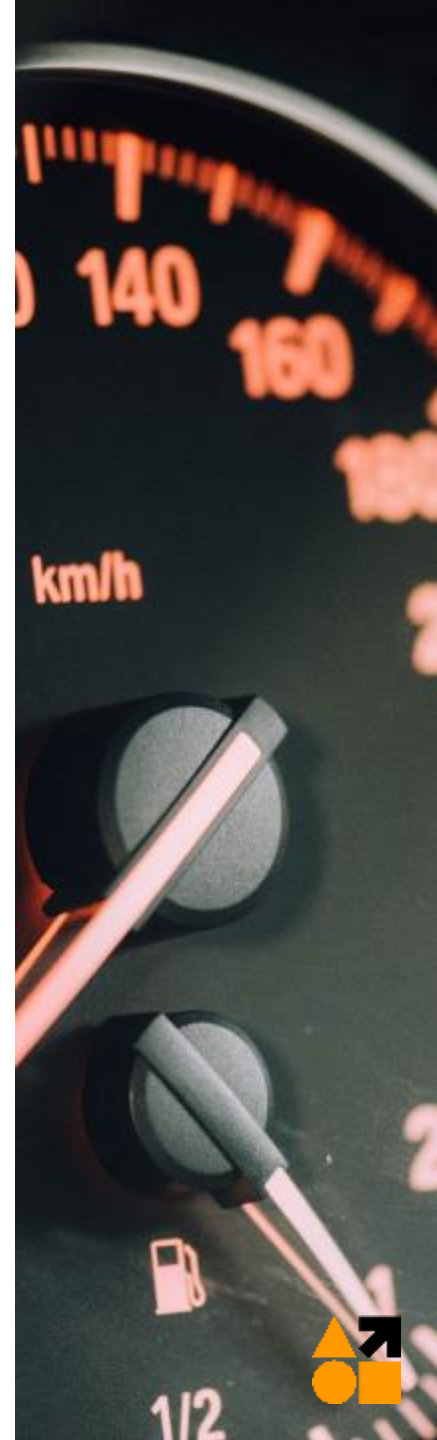
# Employee vehicle

## 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 &  
allowances are not  
excludable

Uniforms  
excludable if  
required and not  
street wear

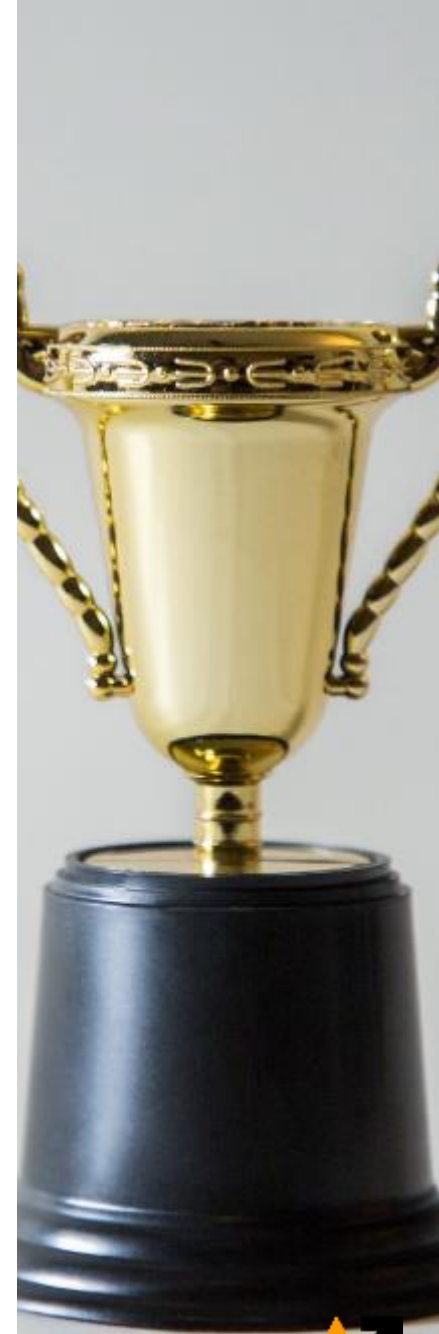


# Awards & prizes

Cash is **ALWAYS** wages

Random drawings,  
recognition and performance  
awards includable

Certain non-cash may be  
excluded with specific criteria



# Professional licenses & dues

Licenses

- Employee must be required to retain
- Directly related to the job

Dues

- Professional organizations excluded
- Social clubs taxable

Substantiation required



# Education reimbursement

Working condition fringe

- Not allowed for minimum job requirements
- Not allowed if training for new trade or business
- Must be required by employer or law

Qualified educational program

- Written program
- Limited amount

Substantiation required



# 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

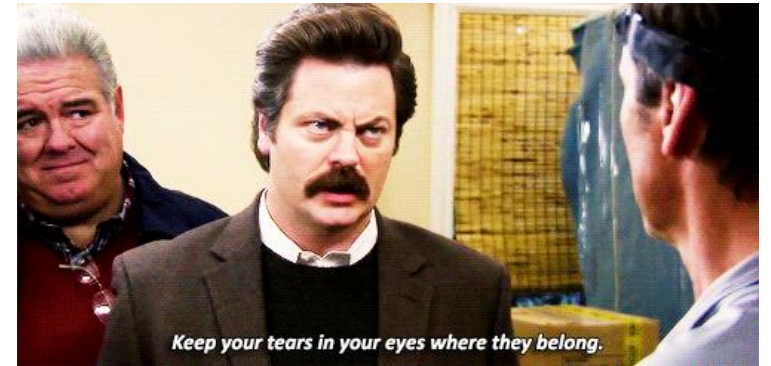
Spouse or  
dependent policy  
greater than \$2,000  
makes entire policy  
taxable



# Polling question #3



# Taxability & reporting requirements



# Supplemental wage payments

- **Anything** that is **not** regular wages
  - Back pay
  - Bonus
  - 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/>
	653.50

## #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/>
	2,061.45

## #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/>
	1,280.20

### 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/>
	781.25



# Paying employee taxes

- **Grossing up** earnings
  - Gross earnings = Desired net payments  $\div$  (100% - total tax %)
- **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

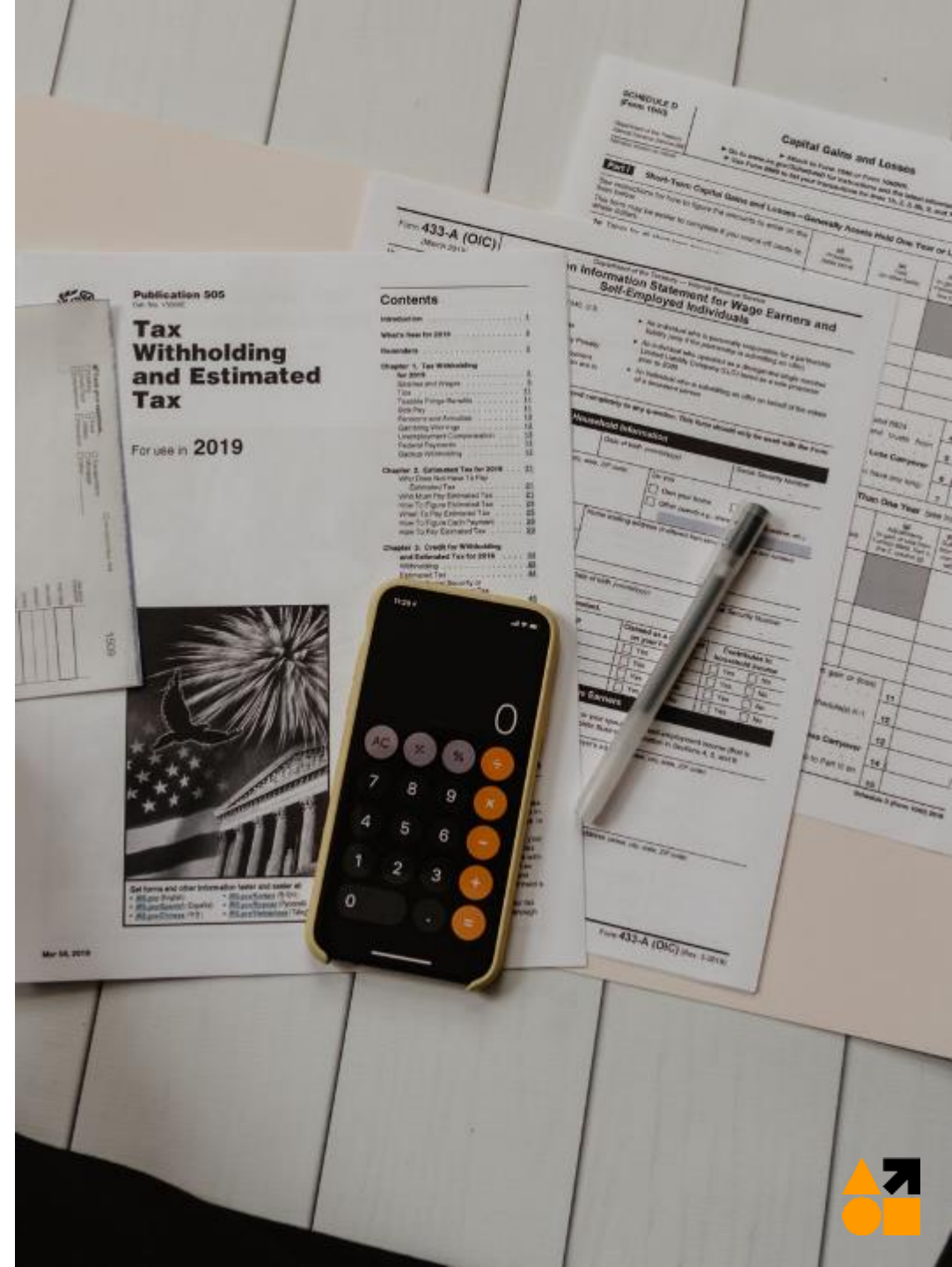


# Paying employee taxes

Gross Up Calculator		FIT Supplemental rate = 22%											
		KSSIT Supplemental rate = 5%											
Things to consider:													
Have they met the FICA threshold?													
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						



# Section 3 | Reporting W-2s & Coding





# Wage & 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
							<b>5,959,225.61</b>						



# Wage & 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	
							<b>1,369,461.54</b>	<b>5,379,386.38</b>	<b>5,633,269.17</b>	<b>5,633,269.17</b>	<b>5,633,269.17</b>	<b>5,379,386.38</b>	<b>5,633,269.17</b>	
												<b>SIT</b>	<b>SUI</b>	
												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
													<b>5,379,386.38</b>	<b>5,633,269.17</b>
												Variance	0.00	0.00



# Wage & 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(i) 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)		



# Year-end reporting issues

- Deferred compensation
- Third-party sick pay



# Summary

- Identify & value
- Record
- Report



# Polling question #4



# Thank you!



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