

Taxability of Fringe Benefits

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Taxability of Fringe Benefits

- What is a Fringe Benefit?
- Performance of Services
- Provider of Benefits
- Recipient of Benefits

Are Fringe Benefits Taxable?

- Must be included in pay unless excludable based on certain IRS rules.
- Must include value in pay net of excludable amounts and any amount paid by recipient.

Reporting fringe benefits

- Employee – W-2
- Contractor – 1099 MISC
- Partner – Schedule K-1 (Form 1065)

Types of Fringe Benefits

- Taxable
- Non Taxable
- Partially taxable (i.e. parking subsidy)
- Deferred Taxation (pension contributions)

Valuing taxable Fringe Benefits

- Valued at Fair market Value (FMV)
- FMV- amount a buyer is willing to pay an unrelated seller
- Valuation – FMV of taxable benefit less any amounts paid by the employee

Accountable Plans

- An allowance or reimbursement policy where amounts are nontaxable to recipient.
 - Business Connection to employee
 - Adequate accounting by recipient in reasonable period of time
 - Excess payouts must be returned in reasonable amount of time

Nonaccountable Plans

- Any program or benefit that doesn't meet the three requirements
- Payments made are taxable when paid or constructively received
- Withholding required
- Examples

Exclusion Rules

- Accident and Health Benefits
- Tangible Achievement Awards
- Adoption assistance
- On premises gym
- De Minimis rule:
 - Copy machine use
 - Holiday gifts
 - meals

Exclusions continued:

- Dependent Care
- Education assistance
- Employee Discount Programs
- Group Term Life Insurance
- Moving expenses (movers & travel)
- Retirement Planning Services (Qualified plan in place)
- Outplacement services
- Car expenses

Taxable Fringe Benefits

- Company Provided car (lease value, cents per mile)
 - Personal use – records provided to employer
- Tax and Financial Planning Services
- Specific programs only available to high level or key employees

W-2 Reporting – Travel expenses

- See IRS publication 463
- Examples
- Qualified Transportation Fringe Benefits (QTF)
 - Max \$105/month commuter transportation
 - Max \$205/month parking

Education Costs

- Courses must be
 - Job related
 - Maintain or improve job skills
 - Be required by employer or by law
- Can not:
 - Be needed to meet minimum job requirements
 - Qualify employee for new trade or business