
Payroll Benefit Basics

Fundamental Payroll Certification
Chapter Four
2009 Rates

DEFINITIONS:

- Fringe Benefits
 - Wages
 - Fair Market Value
 - Imputed Income
-

Accountable (Non-Tax) v. Non-Accountable (Taxed)

- An Accountable plan MUST meet **ALL** of the following criteria.
 - If ANY one of these criteria is not met the plan is considered Non-Accountable and becomes a Taxable Fringe and is subject to FED, SS & Med (FICA) and FUTA.
 - Business connection
 - Substantiate business expense
 - over \$75 supporting evidence
 - hotel stays
 - Excess amounts
 - Fixed – Date:
 - Periodic Statement:

Fringe Benefits

- Focus is on exceptions and complications
- generally taxable for FIT, SS, MED
- Remember ALL compensation is considered taxable unless it can be specifically excluded according to the IRS.

Study the chart on 4-1 and 4-2

Taxable

- Dependant Care (over \$5000)
- Sick pay & Disability
(Attributable to ER Contributions)
- Educational Asst. (not job related if no accountable plan or over \$5250)
- GTL (over \$50,000)
- Company vehicle (personal use)
- Non Qualified Moving Exp.
- Commissions
- Non-Cash Fringes
(unless excluded by IRC)

Non-Taxable

- Dependant Care (up to \$5000)
- Disability Benefits
(Attributable to EE Contributions)
- Educational Asst. (job related or Non-Job related up to \$5250 under acct. plan)
- GTL (up to \$50,000)
- Company vehicle (business use)
- Moving Expenses (Qual.)
- De Minimus Fringes

Study the chart on 4-1 and 4-2 (cont.)

Taxable

- Bonuses
- Wages, O/T, Tips
- Back-pay Awards
- Severance
- Gifts, Prizes & Awards
- Legal Services
- Commuter Fees (Over \$120)
- Parking (Over \$230)
- Non-Accountable Reimb.

Non-Taxable

- No Additional Cost Fringes
- Health Savings Accounts
- Long Term Care
- POP Plans
(health, dental, supplemental, etc.)
- Working Condition Fringe
- Commuter Fees (Under \$120)
- Parking (Under \$230)
- Accountable Business Exp.

Fair Market Value & Imputed Income

■ FMV

- Non-cash items
- Determination of the FMV
 - reasonably pay an unrelated third party
 - perceived value of the benefit is not relevant
 - amount the employer paid is not relevant

■ Imputed Income:

- frequency
 - Must be at least annually
 - Taxes are reported and paid at time of imputing
 - Taxes must be collected from the employee or paid by employer on their behalf

Example:

An employee gets a \$50 gift from an employer.
This is a non-qualified plan gift. How do you impute this?

Salary	\$1000.00	
➔ Imputed Amount	<u>\$ 50.00</u>	TAXABLE INCOME \$1050.00
	\$1050.00	
Fed Income Tax	(50.00)	
Social Security (6.2%)	(65.10)	
Medicare (1.45%)	(15.23)	TOTAL TAX WITHHELD (130.33)
➔ Imputed Amount	<u>\$ (50.00)</u>	Minus Imputed Amount
Actual Pay	\$869.67	

■ How did we do that?

1. You first have to include the **FMV** amount of the gift in earnings
2. You then tax the total earnings as normal
3. Finally, you remove the imputed amount from the net amount after taxes

NonReportable Fringe Benefits

- IRC Section 132 Benefits are generally not reported on the employees W2
- Section 132 Benefits include:

- De minimis Fringe Benefits

WARNING!!

- *Cash, gift cards, gift certificates are always taxable*
 - No Additional Cost services
-

NonReportable Fringe Benefits

- **Qualified Employee Discounts** –
 - Offered to customers
 - Discount is not greater than the gross profit
 - Discount on services is not greater than 20% of the retail price
 - Available to all
 - **Working Condition Fringes-**
 - Work related items provided by employer that if employee paid could be written off as business expense on their individual tax returns
 - **Examples:**
 - Business use of company car or plane
 - Subscription to business periodicals
 - Fees for professional organizations
 - Attendance at a job-related seminar
 - Goods used for product testing
-

NonReportable Fringe Benefits

- **Athletic Facilities**
 - Athletic facilities solely for employees, and family, privately operated and on the business premises, or premises owned by employer

- **Qualified Transportation Fringes**
 - some transportation choices, transit passes, and parking can be excluded up to certain limits.

WARNING!!

Cash received as payment for the fringe is always taxable.

NonReportable Fringe Benefits

Qualified Transportation Fringes

- **Van-Pooling** - \$120.00 monthly
 - Provided by employer
 - Considered highway vehicle
 - 80% of mileage
 - 50% occupied

- **Transit Pass** - \$120.00 monthly
 - On mass transit
 - Provided by any person in the business of transportation
 - Cannot be cash. .

- **Qualified Parking** - \$230.00 monthly
 - FMV
 - Can be discriminatory

NonReportable Fringe Benefits

- **Employer Provided Retirement advice**

- Employer must maintain a retirement plan
(i.e. 401k, 403b, SEP, SIMPLE, but not 457)
- not preparations or concerning legalities
- Non – discriminatory

- **Qualified Moving Expense Reimbursements**

- Expense would be deductible by employee if paid oneself
- The employee did not deduct the expense in a prior year

- **Following rules must be met for the expense to be deductible**

(Similar to an accountable business expense reimbursement plan)

- 50 mile rule
- 39 weeks rule

NonReportable Fringe Benefits

- **Qualified Moving Expense Reimbursements**

- Sec 217 with NO DOLLAR LIMITATION
 - moving household goods & personal effects
 - travel from old residence to new.

WARNING: - Mileage rate cannot exceed \$.24
- Lodging is included but meals cannot be included

- Any reimbursed amounts that are employer paid not meeting the requirements must be included in income and are subject to taxation.
- Box 1, 3, 5 of W2 (but not in box 12)
- 3rd party payments

■ Moving Expenses

Lets Try It:

- Jane Smith, employee moved from Chicago to Hawaii in May of 2009 to take a new job.
- Jane was still employed by the new employer on December 31, 2009
- Jane's new employer paid for her moving expenses as follows:
 - \$10500 Moving Household goods
 - \$1,200 Airfare to new job
 - \$2,000 House – hunting trip and temporary living expenses until she closes on her new home.
 - \$5,000 Expenses of purchasing a new home

• **How much of this reimbursement is taxable?**

The move is qualified as it has met the 50 mile rule and the 39 week test

According to the IRS guidelines the **\$10,500** of moving household goods is qualified and therefore **(taxable or not taxable?)**

According to the IRS guidelines the **\$1,200** of airfare is qualified and therefore **(taxable or not taxable?)**

According to the IRS guidelines the **\$2,000** of house hunting and temporary living expense is NOT qualified and therefore **(taxable or not taxable?)**

According to the IRS guidelines the **\$5,000** expense to purchase a home is NOT qualified and therefore **(taxable or not taxable?)**

_____ = _____

■ Moving Expenses

Lets Try It:

- Jane Smith, employee moved from Chicago to California in March of 2009 to take a new position with her company.
- 2,800 Miles to new job
- Jane was still employed by the new employer on December 31, 2009
- Jane's employer paid for her moving expenses as follows:
 - \$9,000 Moving Household goods
 - \$700 Mileage for travel to new location
 - \$1,800 House – hunting trip and temporary living expenses until she closes on her new home.
 - \$ 200 Meals en route to California
 - \$1,000 Expenses of purchasing a new home

• **How much of this reimbursement is taxable?**

\$9000 Household Goods
(taxable or not taxable?)

2800 Miles Driven
(taxable or not taxable?)

\$1800 House hunting
(taxable or not taxable?)

\$200 Meals
(taxable or not taxable?)

\$1000 Purchase of Home
(taxable or not taxable?)

_____ = _____

NonReportable Fringe Benefits

- **Prizes and Awards**

- Included unless service or safety

SAFETY / SERVICE AWARDS MUST MEET THE FOLLOWING CRITERIA:

- Non-Qualified: \$400 in a calendar year
- Qualified plans:
 - \$1600 in a calendar year, individual awards \$400
 - must be a written plan
 - Not favor HCE

WARNING!!

If awards exceed limitations the entire amount becomes taxable

NonReportable Fringe Benefits

- **Awards**

- Must be tangible and presented in a meaningful ceremony

- **Service**

- 5 year rule

- **Safety**

- 10% rule
- Selective employees
- Employee minimum requirements

Company vehicles

- Business use of a vehicle is nontaxable
- Personal usage is taxable.

- Accounting procedures for properly taxing company vehicles require proper documentation:
 - Business miles driven
 - Date of trip
 - Purpose of trip
 - Expenses incurred

Company vehicles

- **Reporting requirements-Personal usage**
- Federal tax is optional
- SS/MED **must** be withheld
- reported on the W2
- reported at least once a year

- Fringe provided in November and December may be reported in following year.
 - This means that if the expense was incurred in Nov or Dec 2009 you can report it in Jan 2011 when you do the 2010 W2's.

Company vehicles

■ Valuation Method

3 Safe Harbor methods

WARNING!!

Once a safe harbor is used it must be carried through as the method throughout the time the employee has the vehicle

■ Safe Harbor 1 *Annual lease method *

- annual lease charts is accessed for comparable auto
- the amount is multiplied by the percentage of personal use for the vehicle
- Lease amounts over \$59,999
- Company provided fuel adds .055 cents per mile
- Lease value for 4 years
- New driver - reclass

■ Annual Lease Method

What are the Steps?

Step 1. Find the cars fair market value

Step 2. Use the table to find the Annual Lease Value (ALV)

Step 3. Divide the personal miles driven by the total miles driven

Step 4. Multiply the FMV by the personal miles driven.

REMEMBER: If the employee has the car for less than a year but more than 30 days you MUST pro-rate to get the Annual Lease Value (ALV)

PRO-RATE FORMULA:

ALV(number of days driven / 365)

■ Annual Lease Method

Lets Try It:

- John Smith has an employer-provided car.
- He uses this car for both business and personal use.
- John drives a total of 24,000 miles this year.
- He drives 17,000 business miles and 7,000 personal miles.
- The car's FMV is \$14,000.
- John drove the car for the entire year

FMV	ALV
12,000-12,999	3,600
13,000-13,999	3,850
14,000-14,999	4,100
15,000-15,999	4,350
16,000-16,999	4,600

FMV = \$ _____

From the table the ALV = \$ _____

Personal Miles = _____ / Total Miles = _____
= _____

ALV of \$ _____ X _____
= \$ _____

Lets Try It Again with another change:

- John Smith has an employer-provided car.
- He uses this car for both business and personal use.
- John drives a total of 48,000 miles this year.
- He drives 27,000 business miles and 21,000 personal miles.
- The car's FMV is \$15,000.
- John drove the car for 180 days
- The employer provided all the fuel

FMV	ALV
12,000-12,999	3,600
13,000-13,999	3,850
14,000-14,999	4,100
15,000-15,999	4,350
16,000-16,999	4,600

■ Annual Lease Method

FMV = \$ _____

From the table the ALV = \$ _____

Personal Miles = _____ / Total Miles = _____
= _____

PARTIAL YEAR ALV =
_____ (Days Driven ____ / ____)
ALV = _____

FMV Of Personal Use
= ALV of \$ _____ X _____
= \$ _____

Personal Miles = _____ X \$ _____ =
\$ _____

FMV of Personal Use \$ _____ + ER Paid Gas \$ _____
= \$ _____

Company vehicles

Cents per mile - \$.55

- **Safe Harbor 2** *Cents per mile method*
 - Vehicle- put in service in 2009
 - Under \$15,000 value
 - Fleet, under \$19,900 value
 - SUV- put into service in 2009
 - Under \$15,200 value
 - Fleet, Under \$19,900 value
 - Qualifications
 - Business Expectation
 - 10,000 miles annually

■ Cents per Mile Method

Lets Try It:

- John Smith has an employer-provided car.
- He uses this car for both business and personal use.
- John drives a total of 16,000 miles this year.
- He drives 10,000 business miles and 6,000 personal miles.
- The car's FMV is \$14,000.
- John drove the car for the entire year and the employer paid for the gas

FMV = \$ _____

Since the FMV is under \$15,000 and the miles driven were more than 10,000 we **can** use the cents per mile method.

Because the Employer paid for the gas we use a rate of \$.____ per mile.

Personal Miles = _____ X ____
= \$ _____

NOTE:

*If the Employee paid for the gas
We take personal miles X **\$.495***

Company Vehicles

- **Safe Harbor 3** *Commuting Valuation method*
 - Include \$1.50 per one-way commute- \$3.00 roundtrip if personal use of the company vehicle is:
 - Not by a “control employee”
 - Restricted for usage between work & home only
 - Non-compensatory business reasons
 - Car pool = \$3.00 roundtrip

■ Commuting Valuation Method

Lets Try It:

- John Smith has an employer-provided car.
- He uses this car for business use only and his personal use is limited to driving home each day.
- John drives a total of 16,000 miles this year.
- He drives to work and back 260 days a year
- The car's FMV is \$14,000.
- The Company has a written policy that specifically dictates the use of the vehicle to be business only
- John is not a control employee

Since the vehicle is covered under a written policy, the employee is not a Control Employee and the vehicle is only driven for business use with the exception of round trips to and from work, we can use the Commuting Valuation Method.

$$\begin{aligned} &\text{Days Driven Home (roundtrip)} \\ &= \underline{\hspace{2cm}} \times \$ \underline{\hspace{2cm}} \\ &= \$ \underline{\hspace{2cm}} \end{aligned}$$

NOTE:

Without a written policy you cannot use this method.

Group Term Life –GTL

GROUP TERM LIFE

- GTL > \$50,000 is taxable income
- Exempt from FIT withholding
- Taxable for SS/ Med
 - Holds true even EE pays via cafeteria plan
- Exempt from FUTA- Federal Unemployment Tax
 - Calculating the value of excess GTL – **MUST USE CHART**

Calculating the value of excess GTL

- 1) Determine the amt of coverage
- 2) Amt of coverage - \$50,000 = Excess coverage
- 3) Excess coverage/ \$1,000 x Value from table = Taxable value (per month)
- 4) Taxable value – EE after tax contributions= Taxable value of GTL per month

5) **EXAMPLE: employee age 37**

100,000 in coverage	50,000 in excess	50
<u>-50,000</u>	<u>/1,000</u>	*.10 (from table)
50,000 in excess	50	5.00 TAXABLE VALUE

Note – pretax contributions do not reduce the taxable value
after tax contributions cannot reduce the taxable value below \$0

Lets Try It:

■ Group Term Life

- ABC Group Offers GTL to it's employees at 2 times the annual salary.
- The premium is paid partially by the company and partially by the employee
- The employee portion of the premium is \$2.00 per month
- The premium is not part of a section 125 plan and therefore not pretax.

\$ _____ X ____ = \$ _____ (Amount of coverage)

\$ _____ - \$ _____ = \$ _____ (Excess Coverage)

\$ _____ / \$1,000 X \$.____(from table) =

\$ _____ Benefit Value per Month

Age	Cost per \$1,000
30-34	.08
35-39	.09
40-44	.10

Calculate the taxable value of the GTL for an employee who is 37 and makes \$60,000 per year.

\$ _____ - \$ _____ (EE After Tax Premium) =

\$ _____ Taxable Value of GTL per month

REMEMBER: If EE deduction is pretax then you do NOT subtract the EE premium from the Taxable Value in Step 4 above.

Dependent GTL

- Dependent GTL < \$2,000
- Dependent GTL > \$2,000
- Dependent care is taxable for FIT
- Taxable for SS/ Med- if not withheld ER pays
- Exempt from FUTA

Deferred Compensation

Deferral of current income until retirement

Qualified vs. non qualified plans

“Qualified” means not taxable

- Qualified plans must meet provisions of IRS 401
 - Be written and communicated to employees
 - Exclusive benefit for employees or beneficiaries
 - Non transferable, non forfeitable, (vested)
 - Satisfy eligibility and vesting rules of employer
 - Cannot discriminate in favor of HCE, officers, shareholders—
benefits may vary based on tenure

Deferred Compensation

- 401(k)- qualified plan-
 - 2009 Maximum contribution \$16,500
 - Catch –Up contribution \$5000 (age 50)
 - Not taxable for Federal or State Income Tax (except in Pennsylvania)
 - 401(k) Taxable for Social security / Medicare and Usually for 403(b) and 457(b)

Annual MAX on all plans combined is 49,000 or 100% of eligible compensation whichever is less

- Employer Options
- Plans may offer:
 - Employee match
 - Ceilings for contributions
 - Caps for matching

Deferred Compensation

- 403(b)-plan for tax-exempt organizations, as public schools, colleges, universities religious groups, charities
 - 2009 Maximum contribution = \$16,500
 - Catch up contribution = \$5000
 - Non taxable for Federal
 - Generally taxable for Social security / Medicare

- Two plans available
 - TSA– Tax Sheltered Annuity –
 - tax deferred annuity issued by life insurance companies
 - TSCA=Tax Sheltered Custodial Account-
 - invested in mutual funds held by a qualifying custodian

Annual MAX on all plans combined is 49,000 or 100% of eligible compensation whichever is less

Deferred Compensation

- 457(b)- plan for governmental employees, some tax exempt organizations
 - Complete deferral of wages sometimes
 - 2009 Max contribution \$16,500
 - Max Catch up = \$5000
 - Not Taxable for Federal Income Tax
 - May be Social security/ Medicare taxable
 - Treated in some ways as a non qualified plan
-

Non-Qualified Plans

- Non – Qualified deferred compensation
 - Allows for discrimination in participation
 - Includes Written Agreement
 - No trust
 - No federal tax until distribution
 - Generally taxable when services are performed

NOTE: Always seek legal advice for these plans

■ Deferred Compensation

Lets Test your knowledge:

- The limit for a 401(k) plan is?
•Answer = \$ _____

- The limit for a 403(b) plan is?
•Answer = \$ _____

- The combined limit or 401(k), 403(b) and 457(b) plans is?
•Answer = \$ _____ or 100% of pay whichever is less

- A Qualified plan can discriminate as long as the shareholders are 2%?
•Answer = _____

A Principal of a High School is 52 years old and makes \$85,000 annually. His district has a 403(b) plan. What is his maximum allowable contribution per year?

Answer = \$ _____

A CFO of a corporation is 50 and makes \$80,000 per year his company has a non-qualified deferred compensation plan. He defers \$20,000 of his salary. How much Social Security and Medicare taxes must be withheld on the \$20,000 in 2008?

Answer =

SS: 20,000 X _____ % = _____
Med 20,000 X _____ % = _____

An employer may provide all of the following in a 401(k) plan except:

- A: Matching Contributions
- B: Lower ceiling on Contributions
- C: Higher ceiling on HCE Contributions

Answer = _____

Section 125 Flexible Benefit Plans

- Means to accommodate the diverse structures of today's families
- Known as cafeteria plans
- Tax free benefits
- Open enrollment times or life status change

Section 125 Flexible Benefit Plans

- Section 125 Benefits may include:

- Offer for cash vs. benefit

WARNING!!

If converted to cash this becomes taxable

- Medical/ Dental –single, spouse, family
 - Long term care insurance
 - Group term life insurance
 - Disability / accident coverage
 - Dependent care – limit of \$5000 or \$2500 if Married and filing separately

Section 125 Flexible Benefit Plans

- Section 125 Cont. . .
 - Adoption assistance
 - Vacation choices– buying additional time
 - CODA- Cash or Deferred Arrangements– only 401k, 403b and 457 plans cannot be included
 - Two separate Flex accounts for qualified non covered expenses - the other for dependent care
 - Health Savings accounts
-

Section 125 Flexible Benefit Plans Tax Implications

- Cafeteria plans are not federal, social security / Medicare taxable
 - Remember 401(k) plans are the exception the are taxable for SS/Med
 - Exception: Cash received for selling of purchased time, opting out of a benefit is full taxability
 - Flexible spending accounts – reimbursement fund previously mentioned – cover medical expenses that are not eligible under plan
-

Flexible Spending Accounts

■ FLEX SPENDING

- Use it or lose it . . . Just what it says
- Employers must pay claim up to the annual contribution election
- Employer can utilize the remaining balances at the end of a plan year for overhead and administrative costs for the plan

■ Flexible Benefit Plans

Lets Test What We Know:

- What benefits can be covered under a Section 125 Cafeteria Plan?

- A: Scholarships
- B: Discounts
- C: Moving Expenses
- D: Dental Insurance

•ANSWER: _____

- What tax implications does a Sec 125 plan have?

- A: No FIT withholding
- B: No SS/Med withholding
- C: No W2 Reporting
- D: All of the Above

•ANSWER: _____

The employee designated \$2000 to his flex spending account. He only used \$1300 in the calendar year and spent \$200 more in January. How much is forfeited and kept by the employer?

ANSWER: \$ _____

The employee designated \$2000 to his flex spending account. The employee has deposited \$1000 to the plan. How much is the employer required to reimburse if \$2000 of qualified receipts are provided?

ANSWER: \$ _____

All of the following are true of a flexible spending account except:

- A: Benefits are taxable
- B: Use it or Lose It
- C: Employer options for forfeited amounts
- D: Uniform Coverage

ANSWER: _____

Links

- Calculate Checks
 - Paycheckcity.com
- Withholding Forms
 - statew4.com
- SSN Verification
 - Socialsecurity.gov/employer/ssnv.htm
- Tax Tips
 - Irs.gov

To Save or not To Save. . To Tax or not To Tax



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