

**Introduction (Publication 15B – Employer’s Tax guide to Fringe Benefit)**

A fringe benefit is a form of pay for the performance of services. A person who performs services does not have to be your employee. A person may perform services as an independent contractor, partner, or director. Also, for fringe benefit purposes, treat a person who agrees not to perform services (such as under a covenant not to compete) as performing services.

Any fringe benefit that is provided is taxable and must be included in the recipient's pay unless the law specifically excludes it. The most common fringe benefits are discussed below:

<b>Type of fringe Benefit</b>	<b>Definition</b>	<b>Employee includes</b>	<b>Exception / Exclusion</b>	<b>Taxable / exempt under IRS rules</b>
<b>Accident and health benefits</b>	<ul style="list-style-type: none"> <li>- Contributions made by an employer to accident or health plan for an employee and/or their spouse and children</li> <li>- Payment made directly to an employee under an accident or health plan</li> </ul>	<ul style="list-style-type: none"> <li>- Current or retired employee</li> <li>- Former employee where coverage is based on the employment relationship</li> <li>- Widow / widower of current / retired employee</li> <li>- Leased employee who provided service for at least a year</li> </ul>	<ul style="list-style-type: none"> <li>- Payment made to a 2% shareholder employee is not exempt</li> <li>- Exemption does not apply to certain highly compensated employees if plan favors those employees</li> </ul>	Exempt
<b>Achievement awards</b>	<ul style="list-style-type: none"> <li>- Tangible personal property given to an employee as an award for either length of service or safety achievement</li> </ul>	<ul style="list-style-type: none"> <li>- Current employee</li> <li>- Former employee where coverage is based on the employment relationship</li> <li>- Leased employee who provided service for at least a year</li> </ul>	<ul style="list-style-type: none"> <li>- Excludes cash or cash equivalent awards</li> <li>- Excludes intangible awards like vacation, lodging, tickets etc.</li> <li>- Payment made to a 2% shareholder employee is not exempt</li> </ul>	Exempt – up to \$1600 (\$400 for not “qualified plan awards”)
<b>Adoption assistance</b>	<ul style="list-style-type: none"> <li>- Payments or reimbursement made under an eligible adoption assistance program</li> </ul>	<ul style="list-style-type: none"> <li>- Current employees</li> </ul>	<ul style="list-style-type: none"> <li>- Payment made to a 2% shareholder employee is not exempt</li> <li>- Exemption does not apply to certain highly compensated employees if plan favors those employees</li> </ul>	Exempt as per IRS rules but not exempt under FUTA and social security and Medicare taxes
<b>Athletic facilities</b>	<ul style="list-style-type: none"> <li>- Use of an on-premises gym or other athletic facility substantially used only by employees, their spouses, and their dependent children.</li> </ul>	<ul style="list-style-type: none"> <li>- Current employee</li> <li>- Former employee who retired or left on disability</li> <li>- Widow / widower of current / retired employee</li> <li>- Leased employee who provided service for at least a year</li> </ul>		Exempt

Type of fringe Benefit	Definition	Employee includes	Exception / Exclusion	Taxable / exempt under IRS rules
<b>Dependent care assistance</b>	<ul style="list-style-type: none"> <li>- Household and dependent care services that directly or indirectly pays for or provided to an employee under a dependent care assistance program that covers only the employees</li> </ul>	<ul style="list-style-type: none"> <li>- Current employee</li> <li>- Leased employee who provided service for at least a year</li> </ul>	<ul style="list-style-type: none"> <li>- Exemption does not apply to certain highly compensated employees if plan favors those employees</li> </ul>	Exempt – up to \$5,000 of benefits (\$2,500 for married employees filing separate returns)
<b>Educational assistance</b>	<ul style="list-style-type: none"> <li>- Educational assistance provided to employees under a qualified educational assistance program.</li> <li>- Includes graduate level courses.</li> <li>- Includes cost of books, equipment, fees, supplies and tuition</li> </ul>	<ul style="list-style-type: none"> <li>- Current employee</li> <li>- Former employee who retired or left on disability</li> <li>- Leased employee who provided service for at least a year</li> </ul>	<ul style="list-style-type: none"> <li>- Exemption excludes cost of a course or other education involving sports, games, or hobbies</li> </ul>	Exempt – up to \$5,250
<b>Employee discounts</b>	<ul style="list-style-type: none"> <li>- A price reduction given to an employee on property or services offered to the customers in the ordinary course of the line of business in which the employee performs substantial services.</li> </ul>	<ul style="list-style-type: none"> <li>- Current employee</li> <li>- Former employee who retired or left on disability</li> <li>- Widow / widower of current / retired employee</li> <li>- Leased employee who provided service for at least a year</li> </ul>	<ul style="list-style-type: none"> <li>- Excludes discounts on:               <ol style="list-style-type: none"> <li>1. real property</li> <li>2. personal property commonly held for investment (such as stocks or bonds)</li> </ol> </li> <li>- Exemption does not apply to certain highly compensated employees if plan favors those employees</li> </ul>	Exempt – <ol style="list-style-type: none"> <li>1. For services - up to 20% of the price charged to other customers</li> <li>2. For merchandise – up to percentage of gross profit</li> </ol>
<b>Employer-provided cell phones</b>	<ul style="list-style-type: none"> <li>- An employer-provided cell phone provided for non-compensatory business reasons</li> <li>- Personal use of an employer-provided cell phone provided for non-compensatory business reasons is excludable from an employee's income as a de-minimis fringe benefit</li> </ul>	<ul style="list-style-type: none"> <li>- Current employee</li> </ul>	<p><b>Not exempt</b></p> <ul style="list-style-type: none"> <li>- Value of a cell phone provided to promote goodwill of an employee or</li> <li>- To attract a prospective employee or as a means of providing additional compensation to an employee.</li> </ul>	Exempt

Type of fringe Benefit	Definition	Employee includes	Exception / Exclusion	Taxable / exempt under IRS rules
<b>Group-term life insurance coverage</b>	<ul style="list-style-type: none"> <li>- Qualified life insurance coverage</li> </ul>	<ul style="list-style-type: none"> <li>- Current employee</li> <li>- Former employee</li> <li>- Leased employee who provided service for at least a year</li> </ul>	<ul style="list-style-type: none"> <li>- Payment made to or on behalf of a 2% shareholder employee is not exempt</li> <li>- Exemption does not apply to certain key employees if plan favors those employees</li> </ul>	Exempt up to cost of \$50,000 worth of coverage
<b>Health savings accounts</b>	<ul style="list-style-type: none"> <li>- Cash contributions to the HSA of a qualified individual</li> </ul>	<ul style="list-style-type: none"> <li>- Current employee</li> </ul>	<ul style="list-style-type: none"> <li>- Payment made to or on behalf of a 2% shareholder employee is not exempt</li> <li>- Exemption does not apply to certain highly compensated employees if plan favors those employees</li> </ul>	<ul style="list-style-type: none"> <li>- Exempt up to \$3300 for self-coverage or \$6,550 for family coverage</li> <li>- Exemption increases by \$1,000 for individual over 55 years</li> </ul>
<b>Lodging on your business premises</b>	<ul style="list-style-type: none"> <li>- Qualified lodging furnished to an employee</li> <li>- Lodging meets this test if you require your employees to accept the lodging because they need to live on your business premises to be able to properly perform their duties</li> </ul>	<ul style="list-style-type: none"> <li>- Current employees</li> </ul>	<ul style="list-style-type: none"> <li>- Payment made to a 2% shareholder employee is not exempt</li> </ul>	Exempt
<b>Meals on your business premises</b>	<ul style="list-style-type: none"> <li>- Meals furnished to an employee from the employee's wages if they are furnished on business premises and furnished for the convenience of the employer.</li> </ul>	<ul style="list-style-type: none"> <li>- Current employees</li> </ul>	<ul style="list-style-type: none"> <li>- Payment made to a 2% shareholder employee is not exempt</li> </ul>	Exempt
<b>Moving expense reimbursements</b>	<ul style="list-style-type: none"> <li>- Any amount given directly or indirectly to an employee, (including services furnished in kind) as payment for, or reimbursement of, moving expenses</li> </ul>	<ul style="list-style-type: none"> <li>- Current employee</li> <li>- Leased employee who provided service for at least a year</li> </ul>	<ul style="list-style-type: none"> <li>- Payment made to or on behalf of a 2% shareholder employee is not exempt</li> </ul>	Exempt

Type of fringe Benefit	Definition	Employee includes	Exception / Exclusion	Taxable / exempt under IRS rules
<b>No-additional-cost services</b>	<ul style="list-style-type: none"> <li>- Service provided to an employee if it does not cause the employer to incur any substantial additional costs</li> </ul>	<ul style="list-style-type: none"> <li>- Current employee</li> <li>- Former employee who retired or left on disability</li> <li>- Widow / widower of current / retired employee</li> <li>- Leased employee who provided service for at least a year</li> </ul>	<ul style="list-style-type: none"> <li>- Exemption does not apply to certain highly compensated employees if plan favors those employees</li> </ul>	<ul style="list-style-type: none"> <li>- Exempt</li> </ul>
<b>Retirement Planning Services</b>	<ul style="list-style-type: none"> <li>- Any retirement planning advice or information provided to the employee or his or her spouse if the employer maintains a qualified retirement plan as defined in section 219(g)(5) of the Internal Revenue Code.</li> </ul>	<ul style="list-style-type: none"> <li>- Current employee and their spouses</li> </ul>	<ul style="list-style-type: none"> <li>- The exclusion does not apply to services for tax preparation, accounting, legal, or brokerage services.</li> <li>- Exemption does not apply to certain highly compensated employees if plan favors those employees</li> </ul>	<ul style="list-style-type: none"> <li>- Exempt</li> </ul>
<b>Transportation (commuting) benefits</b>	<ul style="list-style-type: none"> <li>- Benefits provided to the employees for their personal transportation, such as commuting to and from work.</li> </ul>	<ul style="list-style-type: none"> <li>- Current employee</li> <li>- Leased employee who provided service for at least a year</li> </ul>	<ul style="list-style-type: none"> <li>- Payment made to a 2% shareholder employee is not exempt</li> </ul>	<p><b>Exempt</b></p> <ul style="list-style-type: none"> <li>- Up to \$130 a month for combined commuter highway vehicle transportation and transit passes</li> <li>- \$250 per month for qualified parking</li> </ul>
<b>Tuition reduction</b>	<ul style="list-style-type: none"> <li>- Qualified tuition reduction provided by an employer (educational organization) to an employee</li> </ul>	<ul style="list-style-type: none"> <li>- Current employee</li> <li>- Former employee who retired or left on disability</li> <li>- Widow / widower of current / retired employee</li> <li>- Dependent child or spouse of the above listed individual</li> </ul>	<ul style="list-style-type: none"> <li>- Graduate education qualifies for this exclusion only if it is for the education of a graduate student who performs teaching or research activities for the educational organization.</li> </ul>	<ul style="list-style-type: none"> <li>- Exempt only for undergraduate courses</li> </ul>

<b>Working condition benefit (Company car, employer provided cell phone, etc)</b>	<ul style="list-style-type: none"> <li>- Property and services provided to an employee so that the employee can perform his or her job.</li> <li>- It applies to the extent the employee could deduct the cost of the property or services as a business expense or depreciation expense if he or she had paid for it.</li> </ul>	<ul style="list-style-type: none"> <li>- Current employee</li> <li>- Independent contractor</li> </ul>	<p>The exclusion does not apply to :</p> <ul style="list-style-type: none"> <li>- A service or property provided under a flexible spending account</li> <li>- A physical examination program provided by an employer, even if mandatory.</li> <li>- Any item to the extent the employee could deduct its cost as an expense for a trade or business other than your trade or business.</li> </ul>	<p>Exempt</p>