Fringe Benefits

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CS Accounting

1231 Schofield Ave

Schofield, WI 54476

(715) 848-0539

Tax Treatment of Fringe Benefits

The term "fringe benefit" refers to any benefit provided to an employee that is in addition to money. All benefits provided to an employee are taxable unless the law specifically excludes or defers tax on the benefit. Thus, a fringe benefit can either be taxable, tax-deferred, or excluded from taxation.

The personal use of an employer-provided vehicle is an example of a taxable fringe benefit. An employer contribution to a qualified retirement plan on behalf of the employee is an example of a tax-deferred fringe benefit. Employer-provided health insurance for an employee is an example of a tax-free fringe benefit.

Business Owner

A small business owner in a corporate setting may be both the owner and an employee of his or her business. By taking advantage of excludable fringe benefits, the owner receives a double benefit. First, the cost of the benefit is deductible by the business. Second, the cost of the benefit is tax free to the employee-owner.

Nondiscrimination Rules for Fringe Benefits

Nondiscrimination rules are designed to prevent business owners from offering tax-favored fringe benefits to themselves but not their employees. In general, if fringe benefits are offered to all employees, then all employees, including the top paid employees, receive tax-favored treatment on employee benefits. However, if a plan favors highly-compensated employees or key employees, the value of the benefit must be included in their taxable wages. The terms highly-compensated employees and key employees can mean different things depending on the applicable plan. Special restrictions apply for fringe benefits for sole proprietors, partners, certain LLC members, and S corporation shareholders. Consult your tax advisor if you are a business owner considering providing fringe benefits to yourself and your employees.

Employer-Provided Vehicles

If an employer provides an employee with a company-owned vehicle, and the employee uses the vehicle for personal purposes, the value of that personal use must be included as taxable income on the employee's Form W-2. Under the general rule, the taxable amount equals the fair market value of the total use, minus the amount the employee pays for the use.

Employer-Provided Cell Phones

The value of an employer-provided cell phone, provided primarily for noncompensatory business reasons, is excludable from an employee's income.

Noncompensatory Business Purposes

An employer needs substantial business reasons for providing the cell phone. Examples include:

- Need to contact the employee at all times for work-related emergencies,
- Requirement that the employee be available to speak with clients at times when the employee is away from the office, and
- Need to speak with clients located in other time zones at times outside the employee's normal workday.

Fringe Benefits

The value of cell phones provided to promote goodwill, boost morale, or attract prospective employees cannot be excluded from an employee's wage.

Dependent Care Assistance

Up to $5,000 ($2,500 for Married Filing Separately filing status) of dependent care benefits provided under a dependent care assistance program is excludable from taxable wages. Although these benefits are reported in box 10 of the employee's Form W-2, they are not taxable if used for providing qualified care. The benefits are reported with the tax return on Form 2441, *Child and Dependent Care Expenses.* If benefits received are more than the amount that can be excluded, the excess is included as taxable wages on Form 1040. If an employee receives dependent care benefits, it is still possible for the employee to claim a tax credit for additional expenses.

Other Fringe Benefits

Additional fringe benefits for employees may include:

- Use of on-premises athletic facilities.
- Low-value or de minimis benefits.
- Employee discounts.
- Up to $50,000 group-term life insurance.
- Health benefits.
- Certain business-related meals and lodging.
- Moving expenses.
- Up to $5,250 of educational assistance.
- Transportation benefits.
- Certain benefits provided as a working condition.

Cafeteria Plans

A cafeteria plan allows employees to choose between receiving taxable compensation or a qualified benefit for which the law provides an exclusion from taxation. If the employee chooses the benefit, it is excluded from taxation. Cafeteria plans are sometimes referred to as "flex plans," "flexible spending arrangements," or "FSAs."

Nondiscrimination Rules Apply to the Following:	
Cafeteria Plans	*Highly-compensated employees:* • Officer of corporation • More than 5% shareholder • Highly-compensated employee based on facts and circumstances • Spouse or dependent of above
	Key employees: • Officer having annual pay of more than: 2015 2014 2013 $170,000 $170,000 $165,000 • 5% owner-employee • 1% owner-employee with annual pay more than $150,000
Self-Insured Medical Reimbursement Plans	*Highly-compensated employees:* • One of five highest paid officers • Employee owning more than 10% of employer's stock • Highest paid 25% of all employees
Adoption Assistance Dependent Care Assistance Educational Assistance Employee Discounts Health Savings Accounts Meals Provided at Employer-Operated Eating Facilities No-Additional-Cost Service	*Highly-compensated employees:* • 5% owner-employee at any time during year or preceding year • Employee with annual pay for preceding year more than: 2015 2014 2013 $120,000 $115,000 $115,000 This test can be ignored if employee was not also in top 20% of employees.
Group-Term Life Insurance	*Key employees:* • Officer having annual pay of more than: 2015 2014 2013 $170,000 $170,000 $165,000 • 5% owner-employee • 1% owner-employee with annual pay more than $150,000

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 70½.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.