



TAXABILITY OF FRINGE BENEFITS- PART 3

Other Compensation & Payments To Employees



Uniforms

- Uniforms must be:
 - Defined by the employer
 - Required as a condition of employment
 - Restricted from wear off-duty



Other Types of Compensation

- All income is taxable unless specifically excluded in the IRC
- Some types of payments are “Supplemental” wages

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Supplemental Wages - slide 1 of 2

- Bonuses: Signing, Recruiting, Relocation
- Awards for outstanding service
- Back Pay
- Severance Pay
- Administrative Leave

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Supplemental Wages – slide 2 of 2

Withhold:

- Two different methods:
 - Optional
 - Aggregate

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Awards and Prizes - slide 1 of 9

- Cash or cash equivalent – always taxable
- Cash equivalent
 - savings bonds
 - unrestricted gift certificates
 - gift cards

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Awards and Prizes – slide 2 of 9

Non-taxable awards and prizes

- Only three types are tax-free:
 - Certain awards/prizes transferred to charity
 - *De minimis* awards/prizes
 - Certain employee achievement awards

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Awards and Prizes – 3 of 9

Transferred to charity:

- must be given for charitable, scientific, artistic, or educational achievement, and
- must be transferred to charitable organization before taking possession
- other rules apply

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Awards and Prizes – 4 of 9

- Non-taxable de minimis awards/prizes:
 - cannot be cash or cash equivalent
 - must be small in value and not given frequently
 - no set \$\$\$ amount for de minimis

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Awards and Prizes – 5 of 9

Non-taxable de minimis awards/prizes:

- Examples:
 - holiday ham or turkey
 - flowers for special occasions
 - nominal birthday gifts
 - coffee mugs, plaques

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Awards and Prizes – 6 of 9

Non-taxable employee achievement awards/prizes:

- must be non-cash
- must be for safety or length of service
- value can't exceed either \$400 or \$1600/year/employee
- average value of all awards can't exceed \$400 and remain tax-free
- awards of \$50 or less are not included in computing the average

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Awards and Prizes – 7 of 9

Non-taxable length of service awards:

- *After* at least five years of service
- *No more than* every five years (except for retirement awards)

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Awards and Prizes – 8 of 9

Non-taxable safety awards:

- *After* the first year of employment, and
- *No more than 10%* of eligible employees can qualify for the award
- Managers, clerical, or other professional employees *do not qualify* as eligible employees

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Awards and Prizes – 9 of 9

Taxable awards:

- Cash or cash equivalent
- Non-cash awards won in employer sponsored drawing
- Any award other than qualified non-taxable

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Professional Licenses

- Fees paid to maintain – ordinary business expense
- If employee pays: deductible on 1040
- If employer pays: working condition fringe
 - follow Accountable Plan rules
 - employee must keep records

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Organization Dues

- General rule: not deductible
- Exception for professional organizations
 - business leagues
 - professional organizations
 - trade associations

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Education – 1 of 6

- Four tax code references:
 - 132(d) Education as a working condition
 - 127 Qualified educational assistance program
 - 117(b) Qualified scholarships
 - 117(d) Qualified tuition reduction

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Education – 2 of 6

- IRC 132(d)
 - Job related educational expenses
 - Training must be beyond the minimum educational requirement of the position
 - Cannot qualify the employee for a new trade or position

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Education – 3 of 6

Employee is required to:

- Apply funds directly to the cost of training
- Employer must verify use of funds
- Employee must return any funds over amounts used for training

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Education – 4 of 6

Section 127

- \$5,250
- Written plan
- Education only
- May not discriminate

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Education - 5 of 6

Section 117

- Free or reduced tuition
- Cannot replace payment for services
- Cannot discriminate
- Graduate level at employer institution only
- Undergraduate level

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Education – 6 of 6

Who is a candidate for degree?

- Primary or secondary school student
- Undergraduate/Graduate student
- Pursuing a degree at a college or university or accredited educational institution

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Recap – Helpful Resources

Educational materials for government entities

- [Resource page](#)

Link to download forms and publications and other educational resources

- www.irs.gov/Forms-&-Pubs