

Fringe Benefits 101: To Tax or Not to Tax

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Session Overview

This guide provides a reference for understanding how employer-provided benefits are treated under IRS regulations. The goal is to equip you with the knowledge to accurately identify, value, and report these benefits, ensuring compliance for both your organization and your employees.

What is a Fringe Benefit?

A fringe benefit is a form of pay for the performance of services. This includes property, services, cash, or cash equivalents that an employer provides to an employee. **Under IRS rules, all fringe benefits are considered taxable income unless they are specifically excluded by law.**

- **Valuation:** Taxable fringe benefits must be included in an employee's income at their **Fair Market Value (FMV)**. This is the amount an individual would have to pay for the benefit in an open market transaction.
- **Withholding:** Taxes must be withheld on the value of taxable benefits. This can be done at the supplemental wage flat rate (22%) or by aggregating the benefit's value with regular wages.

Common Nontaxable Fringe Benefits

Many benefits are excludable from an employee's gross income by specific sections of the Internal Revenue Code. Below are some of the most common categories.

De Minimis (Minimal) Benefits

These are benefits that have such a small value that accounting for them is unreasonable or administratively impractical.

- **Examples:** Occasional personal use of a copy machine, holiday gifts with a low fair market value (like a turkey or ham), occasional office snacks, flowers for special occasions.
- **Note:** Cash and cash equivalents (like gift cards) are **never** considered de minimis, regardless of the amount.

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This presentation is not to be taken as tax, legal, benefits, financial, or HR advice. Since rules and regulations change over time and can vary by location, consult a lawyer or HR expert for specific guidance.

Working Condition Benefits

This is property or services provided to an employee so they can perform their job. The employee must be able to deduct the cost of the property or service as a business expense if they had paid for it themselves.

- **Examples:**
 - **Company Cell Phones:** The value of a business-use cell phone provided to an employee is generally nontaxable.
 - **Job-Related Education & Training:** Courses that maintain or improve skills required for the current job.
 - **Uniforms:** Distinctive uniforms required for work that are not suitable for everyday wear.
 - **Professional Dues & Subscriptions:** Memberships to professional organizations relevant to the employee's role.

No-Additional-Cost Services

These are services offered to employees at no additional cost to the employer. The service must be one that is also offered for sale to the public in the ordinary course of the employer's business.

- **Example:** A city allowing its parks and recreation employees to use city-owned golf courses or swimming pools for free during off-peak hours when the public has access.

Qualified Employee Discounts

Discounts on certain property or services offered to employees.

- **Services:** The discount is limited to 20% of the price charged to the public.
- **Property:** The discount is limited to the employer's gross profit percentage.

Achievement Awards

Awards for length of service or safety achievement. To be nontaxable, the award must be tangible personal property (not cash) given as part of a meaningful presentation under an established written plan.

- **Limits:** Nontaxable value is generally limited to \$400 for non-qualified plans and up to \$1,600 for qualified plans.
- **Note:** In this context, a "qualified plan" is a formal, written award program that does not discriminate in favor of highly compensated employees. It does not refer to a health or retirement plan.

Group-Term Life Insurance

The cost of the first **\$50,000** of employer-provided group-term life insurance coverage is excludable from an employee's income. The cost of coverage exceeding \$50,000 (less any amount paid by the employee) must be included in income.

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Common Taxable Fringe Benefits

If a benefit is not specifically excluded by law, it is taxable. Below are some common examples.

- **Bonuses and Cash Awards:** All cash bonuses, performance awards, and prizes are taxable wages.
- **Gift Cards and Certificates:** Because they can be easily exchanged for cash, gift cards in any amount are always considered taxable income.
- **Personal Use of an Employer-Provided Vehicle:** The value of an employee's personal use of a company car, such as for commuting or weekend trips, is a taxable fringe benefit.
- **Gym Memberships & Wellness Programs:** The value of memberships to off-site fitness centers is taxable. (Note: An on-site gym operated by the employer for employees may be nontaxable).
- **Non-Job-Related Education:** Educational assistance for courses that are not related to the employee's current job, or that exceeds the annual nontaxable limit (\$5,250), is generally taxable.
- **Spouse or Guest Travel:** If a spouse, dependent, or guest accompanies an employee on a business trip, the cost of their travel is a taxable benefit unless they are also an employee and there is a bona fide business reason for their presence.

Key Takeaways

1. **Assume It's Taxable:** Unless a benefit fits into a specific nontaxable category defined by the IRS, treat it as taxable income.
2. **Value Correctly:** Use the Fair Market Value (FMV) to determine the value of the benefit.
3. **Withhold Timely:** Withhold applicable federal income tax, Social Security, and Medicare taxes when the benefit is provided.
4. **Review Policies:** Regularly review your organization's benefit policies to ensure they align with current IRS regulations.
5. **Consult the Source:** For detailed rules and examples, refer to **IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits**.

About the Speaker

Erica Enriquez is a Certified Payroll Professional (CPP) with over a decade of experience as a dedicated payroll compliance professional. Based in Austin, TX, she specializes in navigating complex regulatory landscapes and fostering strong government agency relationships. Erica is an active and engaged member of the National Payroll Reporting Consortium (NPRC), among other industry trade groups, and enjoys sharing her expertise through speaking engagements and other educational initiatives.

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