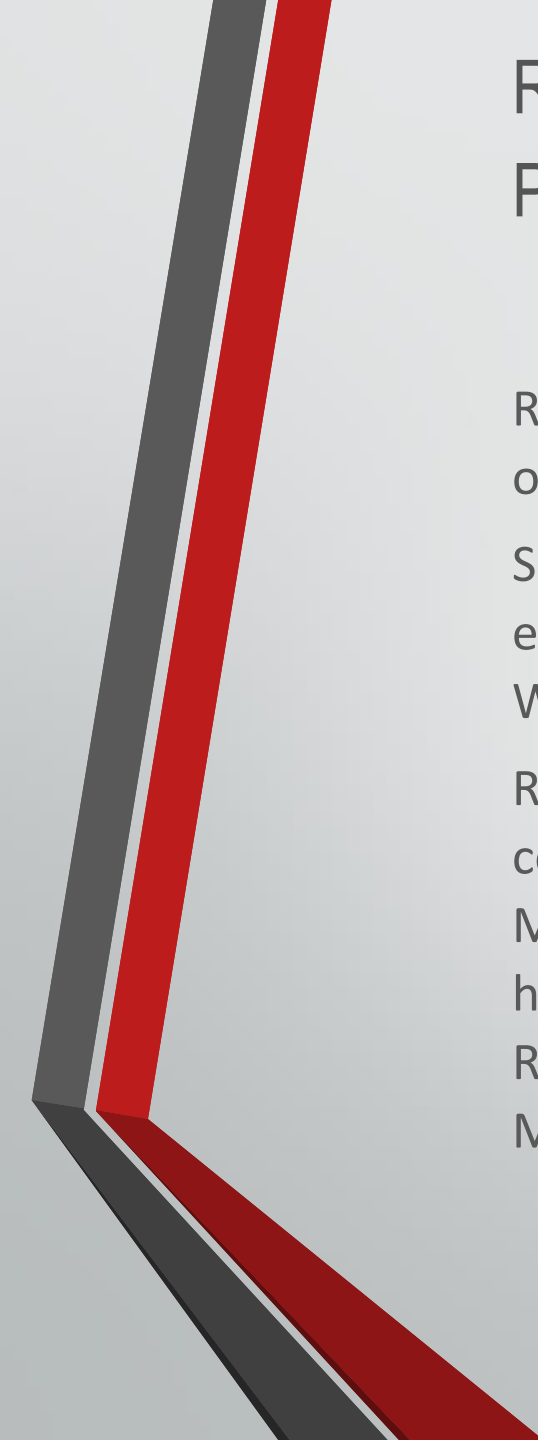


# Taxable Compensation

Rhonda Potter, CPP



## Rhonda Potter, CPP

### Payroll Manager, Premier Truck Group

Rhonda Potter, CPP leads the US and Canadian payroll operations, with responsibility of paying 4000 employees and leading a team of 5 at Premier Truck Group.

She has over 30 years of multi-state payroll, benefits, and human resources experience. In previous roles she has worked as Payroll Manager for Wyndham Worldwide and Phoenix American Hospitality.

Rhonda is a Certified Payroll Professional that has served on many boards and committees on the local, state, and national levels. Her latest role is the current Marketing Director for the Dallas Chapter, APA and has received numerous awards for her work. 2003 – Premier Volunteer, 2006 – Outstanding Achievement, 2011 – Special Recognition, 2012- Dallas Chapter, Payroll Professional of the Year and 2014 – Meritorious Service Award from the American Payroll Association.

# Gross Income and Wages Under the IRC

- The Internal Revenue Code (IRC) states that...
- ALL compensation, no matter what form it takes, constitutes wages subject to federal income and employment taxes, EXCEPT FOR specific exclusions provided by the IRC
- Wages and benefits (fringe benefits, perks, etc.) are included in income



## Cash and Gift Cards

Gifts of cash or cash equivalents, such as gift cards, are taxable to the employee, regardless of the amount. Non-cash gifts may not be taxable if they are under a certain value and given only infrequently.





# De Minimis Benefits

You can exclude the value of a de minimis benefit you provide to an employee from the employee's wages. A de minimis benefit is any property or service you provide to an employee that has so little value (taking into account how frequently you provide similar benefits to your employees) that accounting for it would be unreasonable or administratively impracticable.

Pub 15-B



# Fair Market Value

- Noncash fringe benefits or perks
- What it would cost to purchase the benefit on the open market in an arm's length transaction
- $IFBA = FMV - (EPA + AEL)$ 
  - IFBA: Includable Fringe Benefit Amount
  - FMV: Fair Market Value
  - EPA: Employee-Paid Amount
  - AEL: Amount Excluded by Law



# Highly Compensated Employee (HCE)

Was a 5% owner of the ER's stock or capital at any time during the current or preceding year

Received >\$150,000 (2024 Limit) in compensation during the preceding year

# Taxable Fringe Benefits



- Season Tickets to sporting or theatrical events
- Commuting use of employer provided care for less than 1 day a month
- Membership in private country club or athletic facility
- Use of employer-owned or leased facilities for the weekend

# Transportation Benefits



- \$315 per month for combined commuter highway vehicle and transit passes
- \$315 per month for qualified parking
- Benefits over the limit minus the amount the employee paid is included in the employee's wages

# Employer-Provided Vehicles

Personal use of company-provided vehicle is taxable income except for:

- De minimis fringe benefit
- Qualified nonpersonal use vehicle
  - Marked police, fire, and public safety officer vehicles
  - Ambulances or hearses
  - Moving vans
  - School buses
- Automobile salespeople

Must substantiate usage (mileage), time and place of travel, and business purpose

# Personal Use of Employer-Provided Vehicle

## General Valuation Method

Fair Market Value is the price an individual would pay to lease the same or a comparable vehicle in an “arm’s length transaction” in the same geographic area for the same length of time.

## Special Valuation Method

- Cents-Per-Mile Rule
- Commuting Rule
- Annual Lease Value

# Vehicle Cents-Per- Mile Valuation

67 cents per mile (\$0.67 per mile)

Must be driven > 10,000 miles annually (including personal use)

Used primarily by EEs

FMV < \$62,000

Mileage rate reduced by 5.5 cents (\$0.055) if EE pays for fuel –  
5.05 cents per mile (\$0.505 per mile)

These rates apply to electric and hybrid-electric automobiles as well as gasoline and diesel-powered vehicles.



Vehicle is owned or leased by employer and provided to employee for use in connection with trade of business.



It is required by the employer for the employee to use the vehicle to commute to and/or from work.



Written policy – prohibiting employee from using for personal use.



Employee is not a control employee - HCE

Commuting  
Rule

# Annual Lease Valuation Method

- Publication 15-B, Table 3-1 Annual Lease Value Table
- Determine the FMV on the first date it is available to any EE for personal use
- Using Table 3-1, read down column 1 until you come to the dollar range within which the FMV of the vehicle falls. Then read across to column 2 to find the ALV
- Multiply the ALV by the percentage of personal miles out of total miles driven by the employee
- $FMV = ALV \times \% \text{ of Personal Miles}$

**Table 3-1. Annual Lease Value Table**

(1) Automobile FMV	(2) Annual Lease Value
\$ 0 to 999	\$ 600
1,000 to 1,999	850
2,000 to 2,999	1,100
3,000 to 3,999	1,350
4,000 to 4,999	1,600
5,000 to 5,999	1,850
6,000 to 6,999	2,100
7,000 to 7,999	2,350
8,000 to 8,999	2,600
9,000 to 9,999	2,850
10,000 to 10,999	3,100
11,000 to 11,999	3,350
12,000 to 12,999	3,600
13,000 to 13,999	3,850
14,000 to 14,999	4,100
15,000 to 15,999	4,350
16,000 to 16,999	4,600
17,000 to 17,999	4,850
18,000 to 18,999	5,100
19,000 to 19,999	5,350
20,000 to 20,999	5,600
21,000 to 21,999	5,850
22,000 to 22,999	6,100
23,000 to 23,999	6,350
24,000 to 24,999	6,600
25,000 to 25,999	6,850
26,000 to 27,999	7,250
28,000 to 29,999	7,750
30,000 to 31,999	8,250
32,000 to 33,999	8,750
34,000 to 35,999	9,250
36,000 to 37,999	9,750
38,000 to 39,999	10,250
40,000 to 41,999	10,750
42,000 to 43,999	11,250
44,000 to 45,999	11,750
46,000 to 47,999	12,250
48,000 to 49,999	12,750
50,000 to 51,999	13,250
52,000 to 53,999	13,750
54,000 to 55,999	14,250
56,000 to 57,999	14,750
58,000 to 59,999	15,250

# Personal Use of Employer-Provided Aircraft

- Personal/Recreational travel by the employee
  - When > 50% of the regular seating capacity is occupied by individuals flying on ER's business, the value of the flight for an EE flying for personal use is ZERO.
- General Valuation Rule
  - Value is the cost in an arm's length transaction to charter a comparable aircraft and pilot for a comparable flight
- Standard industry fare level (SIFL) rates
  - Value = [(Standard Industry Fare Level x mileage) x weight-based aircraft multiple] + terminal charge

# Free or Discounted Commercial Flights



For relatives of airline EEs



FMV = 25% of highest unrestricted coach fare in effect for the flight



Taxable to the employee and subject to FIT, FICA, and FUTA

# Discounts on Property or Services Non- Qualified

Residential or commercial real estate

Personal property of kind normally help for investment, such as stocks, bonds, or currency

Discounts on property or services sold primarily to EEs and their families, such as through a company store

Discounts on the sale of services that exceed 20% of the sales price to customers who are not EEs

Discounts provided to an EE by another employer under a written reciprocal agreement with the EE's ER

# Club Memberships

Club dues may be a working condition fringe

- Business-related
- Substantiate business portion
- What is a club?
  - Country clubs
  - Golf and athletic clubs
  - Airline clubs
  - Hotel clubs
- What is exempt from the definition of a club?
  - Business leagues
  - Chambers of commerce
  - Professional organizations (e.g., bar associations, APA)



# Life Insurance

## Group-term life insurance

- Up to \$50,000 is excluded from income
- FMV = Coverage in excess of \$50,000 minus any amount paid for the coverage by the employee after taxes
- FIT is optional
- Subject to FICA
- Not subject to FUTA
- Form W-2, Boxes 1, 3, 5, and 12 Code C

# Group-Term Life Insurance

Publication 15-B, Table 2-2. Cost Per \$1,000 of Protection for 1 Month

- Determine the total amount of the employee's GTL insurance coverage
- Calculate the excess benefit over \$50,000
- Divide the excess insurance amount by \$1,000
- Determine the employee's age as of December 31
- Use the IRS Table 2-2 to calculate the FMV of one month of excess insurance per \$1,000 and multiply it by the answer from Step 3
- Deduct any after-tax contributions by the employee

**Table 2-2. Cost Per \$1,000 of Protection for 1 Month**

<u>Age</u>	<u>Cost</u>
Under 25 .....	\$ 0.05
25 through 29 .....	0.06
30 through 34 .....	0.08
35 through 39 .....	0.09
40 through 44 .....	0.10
45 through 49 .....	0.15
50 through 54 .....	0.23
55 through 59 .....	0.43
60 through 64 .....	0.66
65 through 69 .....	1.27
70 and older .....	2.06

# Group- Term Life Insurance

## Former employees

- Individual with a continuing relationship with the ER (retiree) after employment ends
- ER is relieved of collecting and paying EE's share of FICA
- Include the uncollected FICA on ex-EE's Form W-2
  - Box 12 Code "M" – uncollected social security tax
  - Box 12 Code "N" – uncollected Medicare tax (exclude additional Medicare tax)

## Dependent group-term life insurance

- Up to \$2,000 is excluded from income as de minimis fringe benefit
- If coverage > \$2,000 then entire value is included in income and subject to FIT and FICA (not FUTA)

# Moving Expenses



Payments made directly to EE or by reimbursements for moving expenses are included in income and subject to FIT, FICA, and FUTA



Qualified moving expense reimbursements are excludable for members of the U.S. Armed Forces on active duty who moves because of a permanent change of station



Form W-2, Box 12 Code P

Employee  
Business Travel  
Expense  
Reimbursements

Travel must be “away from home” (overnight stay) and temporary (no more than 1 year)

Accountable plan

Excluded from wages

Not subject to FIT, FUTA or FICA

Must have a business connection and substantiation

Non-Accountable plan

Included in wages

Subject to FIT, FUTA and FICA

# Advances and Overpayments

Included in payroll period when received and subject to FIT, FICA, and FUTA



Recommend to get gross repayments for prior year overpayments

ER can reduce the amount by the FICA taxes withheld

ER can issue a separate check to refund the FICA taxes withheld

# Awards and Prizes

- Included in income and subject to FIT, FICA, and FUTA
- Exceptions for noncash awards
- Length of service or safety achievement awards
  - Tangible personal property, meaningful presentation and not disguised compensation
  - Must not be presented for < 5 years on the job
  - Must not have been awarded to the same employee within the last 4 years
  - Written plan that does not discriminate in favor of HCE
  - Average cost of all qualified plan awards (except those costing \$50 or less) may not exceed \$400

# Back Pay Awards

Resulted from lawsuits or settlements

```
graph TD; A[Resulted from lawsuits or settlements] --> B[Excluded from income: Damages received due to personal physical injuries or sicknesses and emotional distress (Form 1099-MISC Box 3)]; B --> C[Included in income: Damages from employment discrimination claim];
```

Excluded from income: Damages received due to personal physical injuries or sicknesses and emotional distress (Form 1099-MISC Box 3)

Included in income: Damages from employment discrimination claim

# Other Payments



## Bonuses

- Included in income
- Subject to FIT, FICA, and FUTA
- “Push” money exception
  - Not wages when paid by 3<sup>rd</sup> party

## Commissions

- Included in income
- Subject to FIT, FICA, and FUTA
- Statutory employee: Life insurance salespersons
  - Exempt from FIT, but subject to FICA
  - Exempt from FUTA if paid by commission only
- 3<sup>rd</sup> party commission payment
  - Withhold FIT, FICA, and FUTA

# Employer-Paid Taxes (Grossing-Up)

- Taxable income to employee
- IRS approved formula:

Gross amount of earnings =	Desired net payment 100% - Total tax %
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# Golden Parachute Payment

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Result of ownership changes

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Key executives provided with “golden parachutes” to soften landing if terminated

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Parachute payment is > 3x average compensation during 5 most recent tax years

---

Considered income and subject to FIT and FICA

---

Excess parachute (greater than the 3x average comp) payment is subject to a 20% excise tax reported on Form W-2, Box 12 Code K

# Guaranteed Wage Payments

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AGREEMENTS TO PAY AN ANNUAL INCOME OR GUARANTEE A JOB  
WHEN NO WORK IS AVAILABLE

---

INCLUDED IN INCOME

---

SUBJECT TO FIT, FICA, AND FUTA



- If ER pays wages in addition to jury duty pay
  - Wages subject to FIT, FICA, FUTA
- If ER pays the difference between regular pay and jury duty pay
  - Only the difference is subject to FIT, FICA, FUTA
- If ER pays for time spent on jury duty and requires EE to turn over jury duty pay
  - Only the difference between amount paid and amount turned over is subject to FIT, FICA, FUTA

# Leave-Sharing Plans



EEs donate paid leave days which are “deposited” in a leave bank



EEs can then use paid days from the bank when their own paid leave has been exhausted



Subject to FIT, FICA, and FUTA

# Loans to Employees

- Loans at interest rates below the federal interest rate are below-market, compensation-related loans
- The difference between the interest charged and federal interest rate must be included in income if the loan is > \$10,000
- Not subject to FIT
- Subject to FICA and FUTA
- If employer forgives the debt, the entire balance of the loan is subject to FIT, FICA, and FUTA

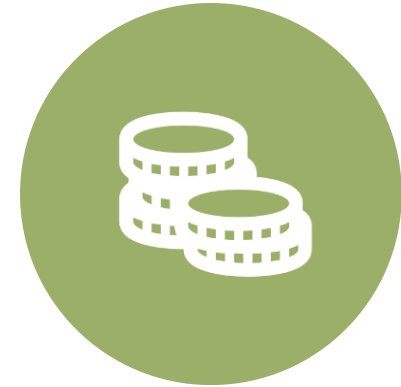
# Retroactive Wage Payments



INCLUDED AS  
INCOME



SUBJECT TO FIT,  
FICA, AND FUTA



SUPPLEMENTAL TAX  
RATE FOR FIT

# Severance or Dismissal Pay

Payment provided because of involuntary termination  
(downsizing, plant closing, relocation, merger, etc.)

Included in income

Subject to FIT, FICA, and FUTA

Supplemental tax rate

# Stocks and Stock Options

To promote  
company loyalty  
and increase  
efficiency and  
productivity

ER stock as  
compensation

Virtual currency is  
income and  
subject to FIT,  
FICA, and FUTA

- FMV of the stock when transferred to the EE without restriction is wages subject to FIT, FICA, and FUTA

# Stocks and Stock Options

## Statutory option

- **Incentive stock options (ISO)**
  - Opportunity to buy stock at a fixed price for a certain period of time
  - Not subject to FIT, FICA, and FUTA

## Statutory option

- **Employee stock purchase plans (ESPP)**
  - Opportunity to buy stock at a discount
  - When stock is sold, EE has ordinary income equal to the lesser of:
    - The difference between the option price and the FMV of the stock on the day the option was granted
    - The difference between the option price and the FMV of the stock on the day of sale

## ◦ Non-statutory option

- **Nonqualified stock options**
  - Income equal to the excess of the value of the stock when the option is exercised over the price paid by the employee
  - Subject to FIT, FICA, and FUTA
  - Form W-2, Box 12 Code V

# Supplemental Unemployment Benefits

Subject to FIT

Not subject to FICA and FUTA if:

- Benefits are paid only to unemployed former EEs who are laid off
- Eligibility depends on meeting certain prescribed conditions after termination
- Amount of benefits payable is based on state unemployment compensation and the EE's straight-time pay
- Duration of benefits is affected by fund level and EE's seniority
- Benefits are not attributable to the rendering of particular services
- No EE has any rights to benefits until EE is qualified and eligible to receive benefits

# Tips

- Included in income
- Subject to FIT, FICA, and FUTA
- If EE reports >\$20 in tips in a month, subject to FIT, FICA, and FUTA
- When taxes to be withheld exceed the wages available, ER should withhold taxes in the following priority:
  - FICA taxes on regular wages
  - FIT on regular wages
  - FICA taxes on tips
  - FIT on tips
  - Uncollected FICA taxes must be report on Form W-2, Box 12 Codes:
    - A – Uncollected social security tax
    - B – Uncollected Medicare tax
  - ER must still pay its full share of FICA

# Vacation Pay



INCLUDED IN INCOME



SUBJECT TO FIT, FICA, AND FUTA



IF EE DOES NOT TAKE THE LEAVE, THE EXTRA  
COMPENSATION IS TREATED AS  
SUPPLEMENTAL WAGES (E.G., PTO PAY-OUT  
UPON TERMINATION)

# Wages Paid After Death

## **Employee dies before cashing paycheck**

- Reissue check to employee's representative for the same net amount
- Report on deceased employee's Form W-2

## **Wages paid after death and in the same year**

- Issue check to employee's estate
- Not subject to FIT
- Subject to FICA and FUTA
- Form W-2, Boxes 3 and 5
- Form 1099-NEC, Box 3 in the name of the beneficiary

## **Wages paid after the year of death**

- Issue check to employee's estate
- Not subject to FIT, FICA, and FUTA
- Form 1099-MISC, Box 3 in the name of the beneficiary

# Withholding and Reporting on Noncash Fringe Benefits

- May be treated as being paid on a pay period (at least annually)
- Risks not having enough regular wages for the EE from which to withhold
  - ER is liable for uncollected FICA taxes as well as its own share
- “Imputing” noncash fringes to determine withholding
  - Taxable value is added to a regular wage payment
  - Total withheld taxes are calculated and subtracted, along with the fringe benefit amount
- Special accounting rule
- Treat fringe benefits provided during November and December of one year as being paid during the next year





Questions?

Thank You!