

Fairfield County Taxable Fringe Benefit Policy Guidelines

We appreciate your understanding and cooperation in this matter so that all State and Federal regulations may be adhered to. The IRS is conducting small government audits and we need to be prepared. There are fines and penalties for not adhering to the regulations.

What is a Fringe Benefit? A form of pay for the performance of services including property, services, cash, or cash equivalent.

Taxability of Fringe Benefits - Fringe benefits for employees are taxable wages unless specifically excluded by a section of the Internal Revenue Code (IRC).

Fringe Benefits Discussed - Clothing, county owned vehicles and meal reimbursements.

Clothing - Clothing purchased by the county is a fringe benefit and must be reimbursed to the county or included on W-2 unless the clothing is specially required as a uniform and are not worn or adaptable to general usage as ordinary clothing. If a set amount of money is received by the employee for clothing, it is taxable. Safety items are excluded. Clothing To be non-taxable, **ALL four conditions must be met:** (1) the employee **MUST** wear it as a condition of employment, (2) the employee **MUST BE PROHIBITED** from wearing it off-duty, the clothing **MUST HAVE** a readily distinguishable logo **AND** (4) the clothing **MUST NOT** be suitable for taking the place of regular clothing. Any clothing that is suitable for taking the place of regular clothing is to be included on the employee's W-2. It is not enough that the employee is prohibited by policy from wearing the clothing outside work. **Polo shirts with County logos, scrubs, Carhart jackets, cargo pants, Dockers and blue jeans are considered to be suitable for everyday use and must be included on the W-2.** For an example, Carhart outerwear worn by maintenance crews can be worn as street-wear, so it is not considered to be a UNIFORM. If a similar item of clothing can be purchased from a retail store like Wal-Mart, then the clothing is considered to be suitable for everyday use. **THERE IS NO DE MINIMIS AMOUNT.** Even if the clothing is required to be turned back in at the end of the employee's employment, it is still to be included on the W-2 as a benefit. Additionally, the next employee who wears the clothing also has it included on the W-2, but at the "fair market value" for that used article of clothing (similar to the price that would be charged at a thrift store). Examples of UNIFORMS that can be excluded from the W-2: law enforcement officers, firefighters, letter carriers, professional

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athletes, delivery workers, health care workers, transportation workers (air, rail, bus, etc.). Protective or safety clothing (steel-toed boots, work gloves, hard hats, safety glasses) required by an employer, although it may have some personal use, can be excluded from reporting on the W-2.

County Owned Vehicles - Personal use of a county vehicle is a taxable wage to the employee. Taxable wage can be computed on personal use based on miles driven. Commuting from home to work can be valued at \$1.50 each one-way if the vehicle is provided to the employee for business use. Exceptions to a county owned vehicle being taxable is clearly marked law vehicles, unmarked law enforcement vehicles used for undercover work, delivery truck with seating for only the driver, school, or passenger bus with a capacity greater than 20 persons, a cement, dump or bucket truck and a specialized utility truck. **According to the IRS, one way to tell if personal use of a county vehicle is taxable is look at which retirement system, he / she pays into. If he / she pays into OPERS he / she is NOT police or fire, and personal use of the vehicle is taxable.**

Meal Reimbursement - Employers often reimburse employees for meals while traveling away from home overnight or while attending meetings. The taxability of these reimbursements or allowances depends on whether there is a valid business reason for the meals and whether the expenses are substantiated. **Meals away from work but not overnight are generally taxable as a wage to the employee because travel must be overnight to be excludable.** The IRS feels you would be eating lunch whether you were at your office or away at a meeting. Reimbursements for meal expenses directly related to professional association meetings are excludable from wages if the expenses of your attendance are related to your trade or business.

Each department is responsible for reporting taxable fringe benefits. When taxable fringe benefits are identified, departments are responsible for tracking and reporting the required information to the Fairfield County Payroll Department. Fringe Benefit Reporting should be submitted by departments to the Fairfield County Payroll Department each and every bi-weekly payroll submission. The Auditor of State or IRS can request to examine the detail. It is recommended that you retain the information in your office for 5 years.

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Apparel Benefits

A. Summary

Per IRS code regulations, the value of employer-provided apparel (including items donated by outside parties, such as vendors or other donors) is taxable to an employee *unless both* of the following two conditions are met:

1. The employee must wear the clothing as a condition of employment; and,
2. The clothing is not suitable for everyday wear.

Any benefit deemed taxable to an employee must be included in the employee's taxable income reported on Form W-2. Accordingly, we have created a new expense object code to allow departments to post the value of these benefits to the correct expense account as a trigger for the required tax withholdings / reporting.

B. Scope

The IRS has recently begun auditing governmental entities for compliance in this area. To facilitate compliance, Fairfield County has chosen to tax all apparel provided to associates regardless of its value.

C. Taxability

All clothing is deemed a taxable fringe benefit to an employee.

This taxable fringe benefit is subject to all applicable taxes at the time the compensation is added to the employee's wage history. This includes FICA-OASDI tax, FICA-Medicare tax, Additional Medicare tax (if applicable) and Federal Withholding taxes.

The reporting year for this fringe benefit will be December 1st through November 30th. The taxable fringe benefit reporting is due to the Fairfield County Payroll office by the 10th of each month. The value of the taxable fringe benefit will be added to the employee's reportable compensation and the tax amount will be withheld from the employee's payroll wages in the month of the due date of its communication to the Fairfield County Payroll. For example, values reported through December 10th will be reported as income in December of the current tax year, and values reported December 1-31 will be reported in January of the next tax year.

D. Specific Exceptions from Taxability

The following major categories of apparel have been determined by IRS to be working condition fringe benefits and nontaxable:

1. Uniforms required to be worn in the performance of an employee's assigned job duties that are not adaptable to general usage as ordinary clothing.

The IRS specifically excludes uniforms for law enforcement officials, firefighters, and healthcare workers from taxation.

2. Protective or safety apparel that is worn over personal attire to protect the employee or to maintain a sanitary environment. Examples include, but are not limited to: Face masks, safety glasses, heat-resistant gloves, hard hats, steel-toed work boots, aprons, and laboratory coats.

The purchase of clothing by a department for the purpose of professional image and visual recognition is not a sufficient justification for an exception from taxability to the recipient.

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E. Responsibilities

1. Department Responsibilities. Each department is responsible for communicating to their employees whether or not apparel provided to them is a taxable fringe benefit that is subject to tax withholding. If the apparel is deemed a taxable fringe benefit, the department should notify the employee of the taxable value of the apparel and when the tax withholding will occur.

Each department is responsible for reporting the following to the Fairfield County Auditor's Office when taxable items are provided to employees:

Name of the employee -

Employee's Fairfield County ID #

Description of the taxable item

Value of item and the quantity issued (the value of the benefit is generally equal to the cost of each taxable apparel item received)