

PAYROLL TAX UPDATE

Prepared by: Kayleen Harper & Whitney Boyd



Bolinger, Segars, Gilbert & Moss, L.L.P
8215 Nashville Ave.
Lubbock, Texas 79423
(806) 747-3806
Email: Kayleen – kharper@bsgm.com
Whitney - wboyd@bsgm.com

PAYROLL TAX UPDATE
TABLE OF CONTENTS

	<u>Page No.</u>
Payroll Changes for Year 2025	1
Common Payroll Problems	
Director Compensation	3
Employee Expense Reimbursement Plans	5
Employer Provided Transportation	9
Employee Owned Automobiles	14
Qualified Moving Expense Reimbursement	16
Noncash Employee Benefits	17
Employee Gifts & Awards	20
Bonuses, Supplemental Wages & Severance Pay	22
Third Party Sick Pay	25
Comprehensive W-2 Example	27
Worksheets and Tables	
Fringe Benefit Compensation Value for Employer Provided Automobile	30
Employee's Auto Usage Statement	31
Taxable Cost of Group-Term Life Insurance	32
Annual Lease Value Table	33
References	34

PAYROLL TAX UPDATE

2025 CHANGES

2025 CHANGES

- The Social Security wage ceiling will be at \$176,100 for 2025. There is still no maximum dollar limitation on the Medicare portion of FICA in 2025. The employee side of social security will remain at 6.2% for 2025.
- The maximum amount that an employee may elect to defer to a 401(k) cash or deferred arrangement will increase to \$23,500 for 2025. Individuals over 50 years of age by the end of the tax year may make an additional “catch up” contribution of \$7,500 for 2025.
- The annual addition to a defined contribution plan will be the lesser of 100% of compensation or \$70,000 for 2025.
- The maximum amount an employee may elect to defer under a SIMPLE plan has increased to \$16,500 for 2025. Individuals over 50 years of age by the end of the tax year may make an additional “catch up” contribution of \$3,500 for 2025.
- The maximum wages subject to unemployment tax in the State of Texas is expected to remain unchanged at \$9,000.
- The federal unemployment tax wage base is expected to remain unchanged at \$7,000. The FUTA rate will remain at 6.0%.
- The mileage rate effective January 1, 2025 is 70.00 cents-per-mile for business use.
- The Per Diem tables can be accessed at www.gsa.gov. The Hi/Lo Per Diem Rates effective October 1, 2024 are expected to be as follows:

<u>Hi/Lo Per Diem Rates</u>		<u>Lodging</u>	<u>Meals and Incidental Expenses</u>
Hi	319	233	86
Lo	225	151	74

2025 CHANGES

HEALTH CARE REFORM ACT

- Flexible spending accounts (FSA's) through a cafeteria plan are limited to a maximum salary reduction per employee of \$2,750. Up to \$500 in unused FSA amounts at the end of the plan year may be carried over to the next plan year without affecting that year's maximum salary reduction. This carryover may be used at any point in the plan year to which it is carried over.
- Employers with more than 50 full-time employees in the 2025 calendar year are considered "applicable large employers." An employee is considered full-time if they work an average of 30 or more hours per week or 130 hours per month.
- Effective January 1st, 2015, employers with 100 or more full-time or full-time equivalent employees who do not offer affordable health insurance that provides minimum value to their full-time employees and dependents may be required to pay an assessment if at least one of their full-time employees is certified to receive a premium tax credit in the individual health insurance marketplace. Under these rules, a full-time employee is one who is employed an average of at least 30 hours per week.
- Applicable large employers face penalties under IRC Section 4980H if they do not offer substantially all full-time employees minimum essential health insurance coverage or they offer coverage that is not affordable or does not provide minimum value.
- Additional info for employers can be found at <http://www.irs.gov/Affordable-Care-Act/Employers>.
- Employees making over \$200,000 per year will be subject to a high earners tax which equates to an additional .9% Medicare tax. Employers will be responsible for additional withholding on an employee once they reach \$200,000.

PAYROLL TAX UPDATE

COMMON PAYROLL PROBLEMS

DIRECTOR COMPENSATION

Introduction

Payments made to a person who is acting in the capacity of a corporate director are considered nonemployee compensation, and are not subject to federal income tax withholding or payroll taxes. As a general guideline, members of a board of director's executive committee who meet at various times during the year to consider policy matters (conduct, management, and overall administration of the business) are performing services of a directorial nature.

Retired Directors

Payments made on behalf of retired directors would also follow the same rules and would be considered nonemployee compensation.

1099 Reporting

As nonemployee compensation, all payments made to directors must be reported in the year paid in box 1 of form 1099-NEC. It is important to note that this includes the sum of all payments, such as:

- *Director Fees* – These are the payments in compensation for attending board meetings or other meetings and conferences.
- *Health Insurance* – Reimbursements or payments for the director's health insurance premiums. As mentioned above, these are included in box 1 of form 1099-NEC is for reporting payments directly to medical or health care service providers such as physicians.
- *Travel Expenses* – Reimbursements or payments for actual travel expenses to/from board meetings and conferences. If the company fully substantiates these costs, they can simply be deducted as travel expense and do not need to be reported on the director's 1099. However, if the director fails to report and substantiate actual costs back to the company, the payments will simply be added to the nonemployee compensation total.
- *Spousal Travel* – Similar payments for the travel expenses of the director's spouse.
- *Travel Advances* – Payments to a director to cover the travel costs of an upcoming board meeting or conference, in lieu of reimbursement of actual expenses.
- *Gifts* – For example, cash Christmas gifts or coupons/gift certificates that are readily convertible to cash must be included in the 1099 total. Such payments cannot simply be ignored as "gifts" and excluded from the compensation calculation.

Example

Company A wrote John the following checks in 2025: \$1,500 for serving at Company A's annual board meeting, \$700 for John's annual health insurance premium, \$550 in travel advances and \$100

DIRECTOR COMPENSATION

as a Christmas gift. Company A must report total nonemployee compensation on John's 2025 Form 1099 in the amount of \$2,850, the sum of all payments made to the director.

Director's Tax Consequences

The director must include these compensation amounts as income on their 1040 individual tax returns. These amounts would be subject to income taxes as well as self-employment taxes. Any portion of the income that was attributable to the health insurance of the director can be offset by a deduction for self-employed health insurance costs. The taxpayer director must remember, however, that the self-employed health insurance deduction is limited to the taxpayer's net earned income derived from the director services.

Additionally, if the director can substantiate their travel expenses, he or she can offset that portion of income attributable to travel advances/reimbursements by a deduction for travel costs.

Summary

The benefit to the business is that director compensation payments are considered nonemployee compensation, and thus are not subject to payroll taxes and withholding. However, these payments must be properly reported on form 1099-NEC, and should include all payments to the individual, not just the director fee itself. The director has the responsibility of reporting the total gross income as self-employment income on their individual tax returns.

EMPLOYEE EXPENSE REIMBURSEMENT PLANS

Introduction

Reimbursements of employee business expenses, payments of per diem or auto expense allowances fall under two types of plans: accountable plans or nonaccountable plans. Under an accountable plan, employee reimbursements are generally deductible by the employer as business expenses and are excluded from the employee's gross wages. If the employer does not maintain an accountable plan, employee reimbursements are deductible to the employer as employee compensation and are included in the employee's gross wages.

Definitions

Expense Reimbursement – employer payment to an employee for expenses the employee has personally incurred and paid.

Expense Allowance – a fixed payment by the employer at a pre-established rate without regard to how much an employee actually spends. Examples would be a travel per diem rate and mileage allowance.

Employee Advance – an up-front payment to employees based on anticipated future expenses of the employee.

Accountable Plan Requirements

According to IRC Sec. 62(c), an accountable plan requires employees to substantiate covered expenses and return unsubstantiated advances. In general, the following requirements must be met in order to qualify as an accountable plan.

1. Business Connection – the plan must reimburse employees only on what would be considered a deductible business expense such as business travel or business meals.
2. Adequate Substantiation – as with any tax-deductible business expense, adequate documentation must be kept on record. Normally the employee would submit a detailed written record substantiating the time, place, amount, and business purpose.
3. Return Excess Advances – if an advance issued exceeds the actual cost of substantiated business expenses, any excess would be returned to the company similar to short term loan. Any excess that is not returned would be treated as additional compensation to the employee and would be subject to payroll tax withholding.

EMPLOYEE EXPENSE REIMBURSEMENT PLANS

Probably the most difficult requirement for businesses and the one that most companies fall short on is the requirement to maintain adequate substantiation. In most cases a simple receipt is not sufficient enough to meet IRS guidelines. Sufficient evidence should always include:

1. the amount of the expense,
2. the time and place,
3. the business purpose, and
4. the employer's business relationship with the person's for which the expense related.

This means, for example, in order for a meal ticket to be fully substantiated, a simple receipt from the restaurant would not be sufficient. It would need to be accompanied by a statement showing the business purpose of the meal and should include the names of all parties present.

As for mileage reimbursements, documentation of the number of miles from Lubbock to Austin on October 22, 2025, would also not be sufficient unless accompanied by a statement showing the purpose of the trip and the name(s) of the event attended or person(s) met with.

Reimbursements Under an Accountable Plan

If the employer's plan meets the requirements for an accountable plan, expense reimbursements to employees who properly comply are deductible by the employer as a business expense. These reimbursements are excluded from the employee's gross income (not reported as wages or other compensation on the employee's Form W-2) and are exempt from income tax withholding and employment taxes.

Nonaccountable Plans

If the employer does not meet the three requirements of an accountable plan mentioned above, then the employer automatically maintains a nonaccountable plan. In a nonaccountable plan, the employer deducts employee expense advances or reimbursements as compensation rather than a business expense.

Example – ABC Corporation pays Charlie a \$1,500 advance to cover Charlie's expenses as a salesman. ABC Corporation does not meet the requirements of an accountable plan. What is the tax treatment of Charlie's advance?

The \$1,500 advance is deductible by ABC as employee compensation, is included in Charlie's gross income, is reported as wages on his W-2, and is subject to income tax withholding and employment taxes when paid. Under the Tax Cuts and Jobs Act, Charlie can no longer deduct expenses attributable to the advance as itemized deductions on his personal tax return. This deduction has been suspended.

EMPLOYEE EXPENSE REIMBURSEMENT PLANS

Per Diem Allowances

As mentioned earlier, employees may reimburse employees for actual travel expenses. However, employers can choose to pay employees a per diem travel allowance regardless of how much the employees actually spend.

The term per diem allowance is a payment arrangement that meets the following requirements.

1. The arrangement must be under an accountable plan.
2. The allowance must be for ordinary and necessary business expenses incurred by an employee for lodging, meals, and incidental expenses while traveling away from home performing services as an employee.
3. The allowance must be reasonably calculated to not exceed the amount of the expenses.
4. The allowance must be paid at the applicable federal per diem rate (preferred) or under a flat rate stated schedule.

As long as the per diem rate does not exceed the actual costs of expenses, the per diem amounts do not affect the employee's W-2 and there are no reporting concerns of the employer.

As with any accountable plan, the payment of per diem rates requires employees to adequately substantiate the expenses underlying the allowance within a reasonable period. Employees should be required to render an adequate account for each trip for which an allowance is provided. This means that the employee must provide documentation and a written record that substantiates the business purpose, the time, and the place of business travel. While receipts are **not required**, employees may find it more convenient to turn in receipts instead of a travel log. Federal provided high/low per diem rates for 2021 are presented in the following table.

	<u>Lodging Rate</u>	<u>M&E Rate</u>	<u>Per Diem</u>
High Cost Locality	\$ 233	\$ 86	\$ 319
Low Cost Locality	\$ 151	\$ 74	\$ 225

Mileage Allowance

It may also be necessary to reimburse employees for business use of their automobiles. The most common approach is using the standard mileage rate provided by the IRS. The standard mileage rate is used in lieu of reimbursing the employee for the actual costs of using the automobile for business (i.e. depreciation, maintenance, and fuel).

EMPLOYEE EXPENSE REIMBURSEMENT PLANS

Just as with per diem, these reimbursements are excluded from the employee's gross income (not reported as wages or other compensation on the employee's Form W-2) and are exempt from income tax withholding and employment taxes.

For the year 2025, the standard mileage rate is 70 cents-per-mile.

Summary

In all, employee reimbursement plans are fairly simple issues. Most businesses, however, under substantiate reimbursement expenses, which could be a problem in an IRS audit situation. In order to have a successful employee expense reimbursement plan, most businesses should follow the following guidelines:

1. Accountable Plan Requirements – the tax law imposes three requirements for the plan to be accountable: a) business connection, b) adequate substantiation, and c) return of excess advances.
2. Understand the Tax Treatment – accountable plan expense reimbursements are deductible by the business as an expense and excluded by the employee as compensation. Nonaccountable plan expense reimbursements are deductible by the business as compensation and included in the employee's compensation.
3. Develop Written Policies – businesses should develop clear, concise policies that carefully explain the employee's responsibility and the requirements for reimbursement.
4. Understand the Employee-by-Employee Rule – the requirements for an accountable plan are on an employee-by-employee basis. Thus the noncompliance of one employee would not disqualify reimbursements to other employees from accountable plan treatment.
5. Know when to Maintain Separate Plans for an Employee – employers have the opportunity to use different plans on different employees. This can be useful if the employer pays non-business expenses or knows that certain employees will not abide with the accountable plan requirements.
6. Establish a Method for Meeting the Reasonable Period Requirements – under an accountable plan, employees are allowed a reasonable period from when they incur expenses to substantiate them or return excess advances. Businesses should include guidelines in its written policies that outline "reasonable period".

EMPLOYER PROVIDED TRANSPORTATION

Introduction

Employers often allow employees to use company vehicles in the employer's business. Employee use of an employer provided auto is considered a working condition fringe benefit. However, a problem occurs when the employee uses the employer's vehicle for personal use. The personal use is considered noncash compensation and must follow tax-withholding rules just as other compensation.

Proving Business Use

The business use of vehicles must be properly substantiated. There are three ways to prove business use of an employer provided vehicle.

1. *Keep Adequate Records* – Employees must substantiate business use of autos by maintaining adequate records.
2. *Use the Safe Harbor Rules* – To avoid the requirements to maintain detailed usage records, the employer may adopt a policy that complies with the safe harbor rules.
3. *Qualified Non-personal Use Vehicle*

Keeping Adequate Records

If this type of substantiation is used, the employee must keep adequate records to show that all or a portion of the vehicle's use was in the employer's business. The amount of business use is normally based on a record of business mileage and total mileage for the year. However, the employee must provide three elements to substantiate business use of the employer provided vehicle: (a) the number of miles driven, (b) the date the vehicle was used, and (c) the business purpose.

According to the Internal Revenue Service, the employee is responsible for substantiating day-to-day use; however, we believe that the ultimate responsibility is on the employer. The employer should have controls in place to be certain substantiation requirements are being met. The easiest way is to have employees maintain mileage logs, diaries or similar records documenting business use. We recommend mileage logs be updated at least weekly.

EMPLOYER PROVIDED TRANSPORTATION

Adopting Safe Harbor Rules

In order to limit detailed recordkeeping, the employer may choose to adopt a safe harbor policy. Any one of the following policies can be adopted, but the policies must be in writing.

1. *Vehicles Solely for Business Use* – adopting a policy that no personal use is allowed except if minimal.
2. *Personal Use Permitted for Commuting Use Only* – adopting a policy that no personal use is allowed except for commuting or minimal use.
3. *Total Lease Value Inclusion* – no substantiation is required when 100% of the annual lease value is reported to the employee as compensation.

Example

ABC, Inc. employs four people. These employees are issued automobiles because of the nature of their work requires them to travel and sometimes make service calls from the employees residence. ABC, Inc. has a written policy restricting personal use of the company's autos solely to commuting and minimal personal use. If ABC, Inc. complies with its written policy and can generally substantiate that the automobiles are used strictly for business purposes and commuting then the IRS does not require any further substantiation requirements. However, the personal commuting use will be reported to each employee as compensation.

Qualified Non-personal Use Vehicle

All use of a qualified non-personal use vehicle is considered business use, and thus detailed records of usage are not required to be maintained. A qualified non-personal use vehicle is defined as a vehicle that because of its design would not lend itself to personal use. Examples would include fire vehicles, flatbed trucks and delivery trucks that have seating only for the driver. Employees that use these types of vehicles are not required to maintain substantiation of business use, because the IRS believes because of the vehicles nature, personal use would be minimal.

Valuing Personal Use

As mentioned before, personal use of an employer provided vehicle is taxable to the employee as compensation. There are three ways to value personal use of the vehicle.

1. Automobile Lease Valuation Rule
2. Cents-per-Mile Valuation Rule
3. Commuting Valuation Rule

EMPLOYER PROVIDED TRANSPORTATION

Automobile Lease Valuation Rule

To apply the lease valuation rule to calculate the employee's taxable fringe benefit involves a three-step process.

1. *Determine the Fair Market Value of the Automobile* – the fair market value of the automobile is determined on the date the vehicle is made available to the employee for personal use. Fair market value is defined as the amount the vehicle would bring in the open market.
2. *Establish the Lease Value* – the lease value is related to the fair market value of the automobile and is found in the IRS published table (a copy is provided in the supplemental information of this document). The corresponding lease value is the **total** value.
3. *Allocate the Total Lease Value between Business and Personal Use* – remember that the lease value represents the **total** value. This total value must then be allocated between business and personal use based on either mileage or number of days used.

Example

ABC, Inc. provides George W. Bush with a car with a fair market value of \$20,000. From the lease value tables, the total lease value for the year equals \$5,600. This value must be prorated between business and personal use. If the car was driven a total of 10,000 miles and was driven personally for 3,000 miles, the taxable fringe benefit to George W. Bush would be calculated as follows:

$$\frac{3,000 \text{ miles}}{10,000 \text{ miles}} = 30\%$$

Total Lease Value	\$ <u>5,600</u>
Total Taxable Fringe Benefit	\$ <u><u>1,680</u></u>

This value of \$1,680 is included in George's compensation for the year. This amount is subject to FICA. The employer can elect to not withhold federal income tax from this amount. We recommend that the employer inform the employee in writing of the tax consequences to avoid problems and misunderstandings.

It must also be noted that the lease value tables provided by the Internal Revenue Service are based on a four-year lease term. Once a lease value is established it must be used for four full calendar years. It can then be re-valued as of January 1 following the end of the fourth calendar year.

EMPLOYER PROVIDED TRANSPORTATION

Vehicle Cents-per-Mile Valuation Rule

Another valuation method used in determining the taxable fringe benefit to employees for personal use of employer provided vehicles is the cents-per-mile valuation rule. To compute the value of personal use, the standard mileage rate is multiplied by the total number of miles the employee drove the vehicle for personal purposes.

To use the cents-per-mile valuation rule, the employer must prove that the vehicle was:

1. reasonably expected to be “regularly used” in the business during the calendar year,
2. driven primarily by employees at least 10,000 miles during the year, and
3. valued at less than \$62,000 (2024 amount) (FMV) on the first date it was made available to the employee.

The “standard mileage rate” typically changes from year to year. The standard mileage rate, effective January 1, 2025 is 70.00 cents-per-mile.

Commuting Valuation Rule

The final valuation rule that can be used to value an employer provided transportation benefit is the commuting valuation rule. The commuting valuation rule can only be used if the employee is **required** to commute in an employer provided vehicle. This is normally used in a service business where employees must have service vehicles in order to make service calls from home.

The following criteria must also be met.

1. The vehicle must be owned by the employer and is provided to personnel for primarily business use.
2. There are business reasons requiring the employee to commute in the vehicle – reasons other than just providing an additional fringe benefit.
3. The employer has established a written policy prohibiting anything other than minimal personal use.
4. The employee required to use the vehicle is not a “control” employee.

EMPLOYER PROVIDED TRANSPORTATION

Control Employee

A control employee must use another valuation method. Commuting valuation rules are prohibited if the employee is:

1. a board of director, a shareholder, or elected officer compensated \$120,000 per year or more.
2. compensated \$245,000 or more per year,
3. an owner of 1% or greater in equity, capital or profits of the business.

If all of the commuting valuation rules are satisfied, an employer can include in the employee's gross income an amount equal to \$3.00 per day for commuting.

Example

Al, a service technician for ABC, Inc. is required to drive a business vehicle home every evening in case there is a service call in the middle of the night. He would be charged \$3.00 every day he commutes in the vehicle. If Al gets called out on a Saturday or a holiday and uses the employer provided vehicle, he would still get charged the \$3.00. The view on this is that if he did not have the vehicle, he would have had to commute to the office first to get the vehicle, and thus would be compensated for the commute. If Al only commutes one way (and then leaves the vehicle), he would only be charged \$1.50.

Summary

There are several ways to value the fringe benefit of an employer provided vehicle. But all are fairly simple in context. The Internal Revenue Service only requires that a consistent method be used on an individual vehicle over the course of the year. This means that different valuation methods can be used throughout the company, as long as a consistent method is used for that vehicle. However, in most cases, we recommend that a consistent method be used company wide.

We also recommend that employees be informed of the tax consequences **up front**. It is important to remember that this is a noncash fringe benefit that requires taxes to be withheld. Unless the employer decides to pay the employee share of FICA taxes, the employer will withdraw additional taxes derived from a noncash source. Simply put, the employee's paycheck will be smaller. Additional federal income tax withholding is optional, but the employee needs to know in advance how this will be reported in order to discourage surprises.

EMPLOYEE OWNED AUTOMOBILES

Introduction

During the course of everyday business, employees often use their own personal automobiles for company travel and errands. An employer's reimbursement of these automobile expenses is excludable as employee compensation if the employer maintains an accountable plan. If an accountable plan is not used for reimbursement, some of these payments could trigger taxable income to the employee.

Review of the Differences between an Accountable and Nonaccountable Plan

According to IRC Sec. 62(c), an accountable plan requires employees to substantiate covered expenses and return unsubstantiated advances. In general, the following requirements must be met in order to qualify as an accountable plan.

1. Business Connection – the plan must reimburse employees only on what would be considered a deductible business expense such as business travel or business meals.
2. Adequate Substantiation – as with any tax-deductible business expense, adequate documentation must be kept on record. Normally the employee would submit a detailed written record substantiating the time, place, amount, and business purpose.
3. Return Excess Advances – if an advance issued exceeds the actual cost of substantiated business expenses, any excess would be returned to the company similar to short term loan. Any excess that is not returned would be treated as additional compensation to the employee and would be subject to payroll tax withholding.

In contrast, a nonaccountable plan does not meet these three requirements mentioned above. In a nonaccountable plan, the employer deducts employee expense advances or reimbursements as compensation rather than a business expense.

Mileage Allowance

Most employers find it easier to reimburse employee automobile usage by using a flat or standard mileage rate rather than reimbursing for actual expenses. The Internal Revenue Service permits four practices of mileage allowances.

1. Standard Mileage Rate – probably the most widely used. This rate is based on an IRS established amount for business miles driven. The rate, effective January 1, 2025, is 70.00 cents-per-mile.
2. Exceeding the Standard Mileage Rate – employers can also elect to adopt a mileage allowance that exceeds the standard mileage rate. Depending on the rate adopted by the IRS, the amount exceeding the rate would be taxable income to the employee.

EMPLOYEE OWNED AUTOMOBILES

3. *Mileage Advance* – employers give employees an amount pre-travel based on estimated automobile expenses.

Mileage Rates

As long as the mileage reimbursement rate used does not exceed the standard mileage rate as allowed by the Internal Revenue Service, the employer does not have any reporting requirements and does not have to treat the payment as compensation nor withhold taxes. If the employer adopts a mileage rate that exceeds the standard mileage rate, taxable income results to the employee and rules regarding withholding are as with normal compensation.

There are a couple of other items that should be mentioned. First the standard mileage rate is made up of components. These components are shown below.

Fuel	6.5 cents
Depreciation	33.00 cents
Other Operating Expenses	30.50 cents
	70.00 cents

Even if the employer pays for fuel, a reimbursement of 63.50 cents-per-mile (70.00 – 6.5) can still be made without tax consequences to the employee. It also is important to notice that 30 cents of the mileage rate is depreciation. Thus the employee's basis in his/her automobile is decreasing with every reimbursement for business miles driven.

Second, the main part of mileage reimbursement under an accountable plan is the substantiation requirement. Adequate records should be maintained reporting the time, place and purpose of the business travel along with the total business miles driven.

Mileage Advance

A mileage advance is given to an employee up-front before the actual business travel. Employees are responsible for substantiating full use of the mileage advance in order to qualify for accountable plan treatment. Any excess advance not returned to the employer or any unsubstantiated amount would be considered additional compensation and fall under the normal tax withholding rules.

Summary

In general, reimbursing employees for business miles driven is fairly a simple issue. We recommend, however, that written policies be developed and consistently applied.

QUALIFIED MOVING EXPENSE REIMBURSEMENT

All moving expenses incurred on or after January 1, 2018, whether reimbursed to an individual or paid to a vendor on behalf of an individual, are taxable income to the individual.

NONCASH EMPLOYEE BENEFITS

Introduction

The appropriate measure of additional taxable income to an employee is not necessarily the employer's cost of providing the noncash benefit. Instead, it is the fair market value of the benefit to the employee that is taxable, which often is a different amount than the employer's cost.

Review of the Different Methods for Valuing Noncash Compensation

The statutes use three different methods to value noncash compensation. The method used can depend on the type of compensation, as well as employer preference.

1. Mandatory Valuation Method – For use when the IRS has prescribed a rule or table of values as the required method by which a noncash benefit is to be valued. These values are arbitrarily established by the IRS, and do not necessarily reflect the employer's cost or even the fair market value of the benefit. One example of a benefit that must be valued using the mandatory valuation method is the rate per \$1,000 of group-term life insurance provided over \$50,000.
2. Optional Special Valuation Methods – For use when the IRS provides an optional method by which to value certain noncash benefits. These special valuation methods may be selected by the employer on a less formal basis, and are primarily used for ease in computations. If the special valuation method is not used or used improperly, the general valuation method will apply. Some examples of benefits that can be valued using special valuation methods include the standard mileage rates for use of company transportation, and the per-diem rates for free meals or lodging.
3. General Valuation Method – For use when the IRS has not prescribed a mandatory valuation method, the employer elects not to use an optional special valuation method, or the taxpayer improperly applies one of the optional special valuation methods. In this situation, the fair market value for the item of noncash compensation is arrived at given all facts and circumstances, as if the employee had paid for the benefit in an independent arm's length transaction.

De Minimis Fringe Benefits

Regulations provide that a *de minimis* fringe benefit is excluded from an employee's taxable income if the goods or services have a nominal value, and accounting for the item is unreasonable or administratively impractical. Cash and cash equivalents are not *de minimis* fringe benefits, even when of nominal value (for example, a \$50 incentive for meeting a sales goal).

Gift certificates/cards generally do not qualify as *de minimis* fringe benefits, unless for a tangible item of personal property that cannot be converted into cash (for example, a \$35 gift certificate for a ham). Gift cards to major chain stores, even though cash cannot be extracted, and are used to purchase tangible property are not considered *de minimis* and should be included as compensation.

Common benefits that qualify under the *de minimis* rules include small Christmas gifts of tangible

NONCASH EMPLOYEE BENEFITS

property (not cash), certain transit passes, occasional meal money, and local transportation fare.

However, in applying the *de minimis* benefit rule, the value of the benefit is determined in part by its frequency. This means that a small item that could qualify when given once in a while might not qualify if provided to the employee on a regular basis. For example, if an employer provides a free meal every day, the value of the meals is not *de minimis* to the employees receiving the benefit. Frequency is generally determined on an individual employee basis, but if it would be administratively difficult, frequency may be determined by reference to the workforce as a whole.

If a fringe benefit does not qualify as *de minimis*, the entire value of the benefit is taxable to the employee and subject to employer taxes.

Employer-Provided Educational Assistance

Employers can exclude from gross income up to \$5,250 per employee for benefits paid under a qualified educational assistance program. The employer determines if the program is a “qualified program”, and the education does not have to be work-related for the benefits to be excluded. A few rules regarding this exclusion are:

1. Any amount over the \$5,250 exclusion must be included in gross income and is subject to payroll taxes.
2. “Educational assistance benefits” include payments by the employer for tuition, fees, books, supplies, and equipment.
3. The benefits cannot be for education involving sports, games, or hobbies unless the education has a reasonable relationship to the business of the employer, or is required as part of a degree program.
4. Both undergraduate and graduate coursework beginning after December 31, 2001 is eligible.
5. In order to be “qualified”, an educational assistance program must be a separate written plan for the exclusive benefit of its employees, having the purpose of providing the employees with educational assistance.
6. The educational assistance program must not discriminate in favor of highly compensated employees, and no more than 5% of the amounts paid for educational assistance during the year may be provided for individuals (including their spouses and dependents) owning more than 5% of the employer company.
7. If the employee is given a choice between educational assistance and cash remuneration, the full value of the benefits must be included in gross income.

Treatment of Taxable Noncash Fringe Benefits

For withholding and employment tax purposes, an employer may elect to treat taxable noncash fringe benefits as paid each pay period, or on a quarterly, semiannual, annual, or other basis. However, the benefits must be accounted for no less than annually. The following guidelines

NONCASH EMPLOYEE BENEFITS

apply to this election:

1. The same election does not have to be made for all employees – this means that the employer may withhold more frequently for some employees and less frequently for others.
2. A formal election of payment dates is not required – and the employer does not need to notify the IRS in any way. The employer simply treats the fringe benefits as paid on the date or dates the employer chooses (as long as they are before December 31 of the calendar year they are provided).
3. Employers may change their elections as often as they want – as long as all benefits provided during the calendar year are accounted for as paid prior to December 31.
4. Employers may spread out the value of a single fringe benefit as paid in multiple pay periods – even if the employee receives the entire benefit at one time. A \$1,000 fringe benefit can become four \$250 benefits for each quarter.

Summary

There are many ways to compensate employees aside from their paychecks. Such noncash compensation and benefits are almost always taxable, and must be included on the employee's W-2 and accounted for when calculating payroll taxes due.

Depending on the type of benefit involved, there are several methods for valuing the benefit provided to employees. If there are no mandatory requirements regarding the valuation of a particular benefit, the employer can use an optional special valuation method, if one is available. If not, the employer simply accounts for the benefit at its fair market value.

Even when no IRS rules govern a particular benefit, it is recommended that a consistent method be applied to each employee for the same benefit. This aids in bookkeeping and calculations for W-2's and payroll tax reports. It is also recommended that employers be direct about the taxability of noncash compensation to their employees. Unless the employer decides to pay the employee's share of FICA taxes, the employer will have to withhold additional taxes from the employee's paycheck. Also, the employee needs to know in advance how taxable benefits will be reported, in order to withhold enough federal income tax for 1040 purposes.

EMPLOYEE GIFTS & AWARDS

Tax Treatment of Employee Gifts

Any amount transferred by an employer to an employee that is not an award, as defined later in this section, is considered a gift. The fair market value of a gift to employees is normally taxable compensation. The value of the gift is included in the employee's gross income, is reported as wages on the form W-2, and is subject to withholding and payment of employment related taxes.

However, there is an exception to the general rule if the gift is tangible property and *de minimus*. Turkeys, hams, or merchandise of nominal value given to employees at holidays as goodwill are considered *de minimus* fringe benefits and are exempt from the compensation of the employee. To qualify as *de minimus*, the gifts must be tangible property. *De minimus* gifts do not include cash, gift certificates or any item that is readily convertible to cash.

Tax Treatment of Employee Awards

Employee achievement awards are exempt from an employee's compensation. Employee achievement award is an item of tangible personal property. Tangible personal property does not include cash, gift certificates or a cash equivalent item – it also does not include vacations, meals, lodging, entertainment tickets, stocks, bonds or securities. Also to be excludable it must meet the following requirements:

1) Length of service or safety achievement

Award qualifies as length of service award if:

- a) Presented after the employees has been there five years
- b) Employee has not received a length of service award in the previous four years

Award qualifies as a safety award if:

- a) Awarded to an employee other than a manager, administrator, clerical employee and
- b) Award is not given to more than 10% of total eligible employees during the year.

2) Meaningful Presentation – the award must be given at a meaningful presentation, does not have to be elaborate, but must be ceremonious emphasizing the recipient's achievement in the area of length of service or safety.

3) No significant likelihood of disguised compensation

EMPLOYEE GIFTS & AWARDS

Amount of Exclusion of Employee Awards

Employee awards of this type can be excluded if the amount of the awards do not exceed (for the year/per employee) \$400 in a nonqualified plan, or \$1,600 in a qualified plan.

An employee award is usually considered given under a qualified plan if there is an established written plan that does not discriminate in favor of highly compensated employees. Also, the average cost of all employee awards over \$50 must not be over \$400 to qualify as a qualified plan.

BONUSES, SUPPLEMENTAL WAGES & SEVERANCE PAY

Introduction

During the year, employees may receive compensation in addition to their regular wages. This additional compensation is called Supplemental Wages. Supplemental wages include, but are not limited to:

- Bonuses and Commissions
- Overtime pay
- Payments for Accumulated sick leave
- Severance Pay and Early Retirement Buyouts
- Awards and prizes
- Back Pay
- Retroactive pay increases for current employees
- Payments for nondeductible moving expenses
- Taxable fringe benefits
- Expense allowances paid under a nonaccountable plan

Tips

You should withhold income tax on tips from wages or from other funds that the employee makes available. If your employee receives regular wages and reports tips, figure income tax as if the tips were supplemental wages. If you have not withheld income tax from the regular wages, add the tips to the regular wages and withhold income tax on the total. If you withheld income tax from the regular wages, you can withhold on the tips by either method 1a or 1b below.

Vacation pay

Remember that vacation pay is subject to withholding as if it were a regular wage payment. When your employee's vacation pay is in addition to regular wages for the vacation period, you should treat it as a supplemental wage payment. However, if the vacation pay is for a time longer than your usual payroll period, spread it over the pay periods for which you pay it.

Federal Income Tax Withholding

The amount of Federal Income Tax you withhold from your employee's wages depends on how much supplemental income you pay an employee during the year. How you withhold Federal Income Tax on supplemental wages depends on whether the supplemental payment is identified as a separate payment from regular wages. It should be noted that regardless of the method that you use to withhold federal income tax, the wages are subject to social security, Medicare, and FUTA taxes. In determining supplemental wages for an employee during the year, you should include all payments from all businesses under common control.

BONUSES, SUPPLEMENTAL WAGES & SEVERANCE PAY

Supplemental Income of Less than or Equal to \$1,000,000

If the total supplemental income for an employee is less than or equal to \$1,000,000 during the year, the following rules apply to the amount of federal income tax to be withheld:

Supplemental wages combined with regular wages:

If supplemental wages are combined with regular wages [and you do not specify the amount of each] then you should withhold federal income tax as if the total were a single payment for a regular payroll period.

Supplemental wages identified separately from regular wages:

If supplemental wages are paid separately from regular wages or if supplemental wages are paid together with regular wages but identified separately, then the federal income tax withholding method depends on whether you normally withhold income tax from your employee's regular wages.

1. Normally do withhold from regular wages – Use one of the following methods for withholding from supplemental wages:
 - a. Withhold 22%, or
 - b. Add the supplemental wages and the regular wages for the most recent payroll period this year. Then figure the income tax withholding as if the total was a single payment. Subtract the tax already withheld from the regular wages. Withhold the remaining tax from the supplemental wages.
2. Normally do NOT withhold from regular wages:
 - a. Use method 1b above

Supplemental income of \$1,000,000 or More

If the total supplemental income for an employee is more than \$1,000,000 during the year, the excess supplemental income received over and above the \$1,000,000 is subject to federal tax withholding of 39.6% [or the highest rate of income tax for the year].

- You should withhold the excess over the \$1,000,000 using the 37% rate without regard to the employee's Form W-4.

Example

Oprah Winfrey is single and claims one allowance. Her December 1, 2025 regular pay is \$2,000. Using the wage bracket tables, you withhold \$168. On December 12, 2025, Oprah receives a Christmas bonus of \$2,000. This is Oprah's only bonus for the year.

BONUSES, SUPPLEMENTAL WAGES & SEVERANCE PAY

Example, cont'd

If you elect to use:

Method 1a

- You should withhold \$440, or 22% of \$2,000.

Method 1b

1. Add the bonus amount to the amount of wages from the most recent pay date:
 $\$2,000 + 2,000 = \$4,000$
2. Determine the amount of withholding on the combined \$4,000 amount to be \$582 using the wage bracket tables.
3. Subtract the amount withheld from wages on the most recent pay date from the combined withholding amount:
 $\$582 - 168 = \414
4. Withhold \$414 from the bonus payment.

Summary

Supplemental wages are in addition to an employee's regular wages. The amount of federal income tax withholding depends on the amount of the employee's supplemental income for the taxable year.

If an employee receives less than or equal to \$1,000,000 in supplemental wages and the supplemental wages are combined with regular wages then you should withhold federal income tax as if the total were a single payment for a regular payroll period.

If an employee receives less than or equal to \$1,000,000 in supplemental wages and the supplemental wages are paid separately from regular wages [or can be identified separately] and you normally withhold federal income tax from the regular wages then you withhold according to methods 1a or 1b above.

If an employee receives less than or equal to \$1,000,000 in supplemental wages and the supplemental wages are paid separately from regular wages [or can be identified separately] and you do not normally withhold federal income tax from the regular wages then you withhold according to method 1b above.

If an employee receives more than \$1,000,000 in supplemental wages in a taxable year, the excess supplemental income received over and above the \$1,000,000 is subject to federal tax withholding of 37% [or the highest rate of income tax for the year].

THIRD PARTY SICK PAY

Sick pay generally means any amount paid under a plan because of an employee's temporary absence from work due to injury, sickness or disability.

If the employer pays sick pay, the employer must generally withhold employee Social Security taxes and Medicare taxes from the sick pay and timely make all required deposits.

A third party that makes payments of sick pay as an agent of the employer generally has no responsibility for employment taxes. The responsibility remains with the employer. However, the parties may enter into an agreement that makes the third party agent liable for employment taxes.

A third party that makes payments of sick pay other than as an agent of the employer is liable for the employee part of the Social Security and Medicare taxes. The third party is also liable for the employer part of the Social Security and Medicare taxes and the FUTA tax, unless the third party transfers this liability to the employer for whom the employee normally works. This liability is transferred to the employer for whom the employee normally works if the third party:

- (1) Withholds the employee Social Security and Medicare taxes from the sick pay payments.
- (2) Makes timely deposits of the employee Social Security and Medicare taxes withheld, and
- (3) Notifies the employer for whom the employee normally works of the payments on which employee taxes were withheld and deposited. The third party must notify the employer within the time required for the third party's deposit of the employee part of the Social Security and Medicare taxes. For instance, if the third party is a monthly depositor, it must notify the employer by the 15th day of the month following the month in which the sick pay payment is made, because that is the day by which the deposit is required to be made for monthly depositors.

In most cases, the third party withholds the employee portion of employment taxes and deposits the amount withheld and the employer remains liable for the employer portion of employment taxes. The third party must timely notify the employer of the amount of sick pay paid the employee so the employer can timely deposit its portion of employment taxes. The employer then reports on its form 941 the total sick pay paid the employee with a credit for the amount of tax paid by the third party.

[Important Note:] Sick pay is only taxable to the employee to the extent the employee did not pay the insurance premiums with after-tax dollars. The employee is only taxed on the percentage of premiums paid by the employer.

THIRD PARTY SICK PAY

Example

Happy Valley Electric Cooperative (HVEC) paid taxable wages to its employees for the fourth quarter 2025 of \$62,000 and withheld income tax of \$7,000. In addition, HVEC's insurance carrier notified the cooperative that it made sick pay payments to an employee of HVEC of \$2,500 and withheld income tax of \$175 and Social Security and Medicare taxes of \$114.75 from the payments. HVEC requires its employees to pay 40% of the sick pay premium to be eligible for coverage ($2,500 \times 60\% = 1,500 \times 7.65\% = 114.75$). Assume that the third party payer has transferred the liability for employee FICA and FUTA taxes and W-2 reporting to the employer.

Form 941 Reporting

The \$2,500 in total sick pay should be added to the \$62,000 in regular wages and reported on line 2. \$1,500 may be used – No clear guidance from IRS.

The \$1,500 of taxable sick pay should be combined with the \$62,000 regular wages paid and reported on lines 5a & 5c. Only the \$7,000 income tax withheld by the employer should be reported on line 3, since the third party remains liable for federal income tax withheld from the sick pay payments. HVEC will take a credit of \$114.75 for the employment taxes withheld and paid by the third party on line 8.

Form W-2 Reporting

Assume that this employee received the total \$2,500 in sick pay reported in the fourth quarter 2025 of which \$1,500 is taxable, and the total withholding was \$175.00. In addition, she earned \$10,000 in regular wages during the year and had \$1,400 in income tax withheld from her salary.

Boxes 1,3 and 5 should include the \$10,000 in regular wages plus the \$1,500 in taxable sick pay. Boxes 4 & 6 should combine the Social Security tax and Medicare tax withheld by the third party and the employer. Box 2 should combine the federal income tax withheld by the third party and employer ($1,400 + \$175$). The \$1,000 in sick pay received by the employee that is not subject to tax due to employee paid premiums is noted in box 12 with code "J".

[Important Note:] Do not include the federal income tax withheld by the third party payer on line 2 of Form W-3. This federal income tax withholding should be reported on line 14 – Income tax withheld by third party payer.

PAYROLL TAX UPDATE
COMPREHENSIVE W-2 EXAMPLE

COMPREHENSIVE W-2 EXAMPLE

FACTS

- (1) Salary - \$175,000
Federal Income Tax Withholding - \$25,000
- (2) Cafeteria Plan Contribution
 - (a) Unreimbursed Medical \$750
 - (b) Child Care \$2,100
- (3) 401(K) Contribution - \$8,607.50[5 %(175,000-750-2,100)]
- (4) Employer Provided Automobile (Subject to FUTA & Texas Unemployment Tax)
 - (a) F.M.V. of Auto - \$19,000 (annual lease value \$5,350)
 - (b) Business mileage 12,000
Personal mileage 5,000
 - (c) Employer provides fuel (5,000 x .065 = \$325)
 - (d) Employee does not reimburse employee portion of FICA

Taxable Fringe Benefit Calculation:

Percent Personal Use	$\frac{\text{Personal miles}}{\text{Total miles}} = \frac{5,000}{17,000} = 29.41\%$	
Annual Lease Value	\$ 5,350	
Personal Usage Percent	<u>x 29.41%</u>	
	\$ 1,573	
Employer Provided Fuel	<u>325</u>	
Total Taxable Value	\$ 1,898	
* Gross Up (1. - .0145)	<u>/ .9855</u>	
Taxable Fringe Benefit	\$ 1,870	(If employee does not reimburse for employment taxes)

- (5) Group Term Life Insurance (not subject to FUTA tax or Texas Unemployment tax)
 - (a) \$150,000 Group Term Life
 - (b) Employee is 55 years old
 - (c) Employee paid premiums total \$180 (\$15 per month)
 - (d) Employer does not reimburse employee portion of FICA

* Employee has exceeded the FICA wage base.

COMPREHENSIVE W-2 EXAMPLE

Taxable Fringe Benefit Obligation:

Per month cost from table	\$.43
No. of months covered	<u>12</u>
Year cost of \$1,000 of coverage	\$ 5.16

Coverage in excess of \$50,000 totals \$100,000
 Divide 100,000/1,000 = 100

Taxable value of protection (100 x \$5.16)-\$180.00=	\$ 336.00
Gross Up	<u>.9855</u>
	\$ 340.94

Form W-2 Reporting

Box 1 Wages, Tips, Other Compensation

Salary	\$ 190,000	
Cafeteria Plan Contribution	(2,850)	
401(K) Contribution	(8,608)	(Rounded)
Employer Provided Auto	1,870	(Rounded)
Group Term Life	<u>341</u>	(Rounded)
	\$ <u>180,753</u>	

Box 3 Social Security Wages \$ 176,100 (Maximum)

Box 5 Medicare Wages & Tips

Salary	\$ 190,000	
Cafeteria Plan Contributions	(2,850)	
Employer Provided Auto	1,870	(Rounded)
Group Term Life	<u>341</u>	(Rounded)
	\$ <u>189,361</u>	

Box 10 Child or dependent care incurred in a Sec. 125 Plan. Total \$2,100

Box 12 Code "C" Cost of Group Term Life Insurance coverage in excess of \$50,000.
 Total \$341

Code "D" Elective deferrals to a Section 401(K) cash or deferred arrangement.
 Total \$8,608.

Box 13 Check the box for "Retirement Plan".

COMPREHENSIVE W-2 EXAMPLE

Alternative to "grossing-up" for noncash compensation

Assume the final check for this employee is \$2,500.00. Add the taxable value for the noncash compensation (insurance and vehicle use) to the last payroll check and calculate employment taxes and withhold from the last issued check.

Final Payroll Check	\$ 2,500.00
Taxable Value Vehicle Use	1,870.00
Taxable Value Group Term Life	<u>341.00</u>
	\$ 4,711
* Medicare Tax (Employees' portion)	<u>1.45%</u>
Withheld from Final Payroll Check	<u>\$ 68.31</u>

In the above example, the employee has paid his/her portion of employment taxes by withholding and thus no "gross-up" is necessary.

* Remember, this employee is over the Social Security base.

Copy B—To Be Filed With Employee's FEDERAL Tax Return.			2024 OMB No. 1545-0008		
a Employee's SSN	1 Wages, tips, other comp.	2 Federal income tax withheld			
123-45-6789	180753.00	25000.00			
b Employer ID no. (EIN)	3 Social security wages	4 Social security tax withheld			
75-1234567	176100.00	10918.20			
	5 Medicare wages and tips	6 Medicare tax withheld			
	189361.00	2745.73			
c Employer's name, address, and ZIP code SOME COMPANY NAME ANYWHERE ST CITY, ST ZIP CODE,					
d Control number					
e Employee's name, address, and ZIP code SALLY EMPLOYEE ANY STREET CITY, STATE ZIP CODE					
7 Social security tips	8 Allocated tips	9			
10 Dependent care benefits	11 Nonqualified plans	12a See instructions for box 12			
2100.00		C 341.00			
13 Statutory employee	14 Other	12b			
		D 8608.00			
Retirement plan		12c			
X					
Third-party sick pay		12d			
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax			
18 Local wages, tips, etc.	19 Local income tax	20 Locality name			

Form W-2 Wage and Tax Statement Dept. of the Treasury - IRS
This information is being furnished to the Internal Revenue Service.

This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.

Copy C—For EMPLOYEE'S RECORDS (See Notice to Employee.)			2024 OMB No. 1545-0008		
a Employee's SSN	1 Wages, tips, other comp.	2 Federal income tax withheld			
123-45-6789	180753.00	25000.00			
b Employer ID no. (EIN)	3 Social security wages	4 Social security tax withheld			
75-1234567	176100.00	10918.20			
	5 Medicare wages and tips	6 Medicare tax withheld			
	189361.00	2745.73			
c Employer's name, address, and ZIP code SOME COMPANY NAME ANYWHERE ST CITY, ST ZIP CODE,					
d Control number					
e Employee's name, address, and ZIP code SALLY EMPLOYEE ANY STREET CITY, STATE ZIP CODE					
7 Social security tips	8 Allocated tips	9			
10 Dependent care benefits	11 Nonqualified plans	12a See instructions for box 12			
2100.00		C 341.00			
13 Statutory employee	14 Other	12b			
		D 8608.00			
Retirement plan		12c			
X					
Third-party sick pay		12d			
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax			
18 Local wages, tips, etc.	19 Local income tax	20 Locality name			

Form W-2 Wage and Tax Statement Dept. of the Treasury - IRS

Copy 2—To Be Filed With Employee's State, City, or Local Income Tax Return			2024 OMB No. 1545-0008		
a Employee's SSN	1 Wages, tips, other comp.	2 Federal income tax withheld			
123-45-6789	180753.00	25000.00			
b Employer ID no. (EIN)	3 Social security wages	4 Social security tax withheld			
75-1234567	176100.00	10918.20			
	5 Medicare wages and tips	6 Medicare tax withheld			
	189361.00	2745.73			
c Employer's name, address, and ZIP code SOME COMPANY NAME ANYWHERE ST CITY, ST ZIP CODE,					
d Control number					
e Employee's name, address, and ZIP code SALLY EMPLOYEE ANY STREET CITY, STATE ZIP CODE					
7 Social security tips	8 Allocated tips	9			
10 Dependent care benefits	11 Nonqualified plans	12a See instructions for box 12			
2100.00		C 341.00			
13 Statutory employee	14 Other	12b			
		D 8608.00			
Retirement plan		12c			
X					
Third-party sick pay		12d			
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax			
18 Local wages, tips, etc.	19 Local income tax	20 Locality name			

Form W-2 Wage and Tax Statement Dept. of the Treasury - IRS

Copy 2—To Be Filed With Employee's State, City, or Local Income Tax Return			2024 OMB No. 1545-0008		
a Employee's SSN	1 Wages, tips, other comp.	2 Federal income tax withheld			
123-45-6789	180753.00	25000.00			
b Employer ID no. (EIN)	3 Social security wages	4 Social security tax withheld			
75-1234567	176100.00	10918.20			
	5 Medicare wages and tips	6 Medicare tax withheld			
	189361.00	2745.73			
c Employer's name, address, and ZIP code SOME COMPANY NAME ANYWHERE ST CITY, ST ZIP CODE,					
d Control number					
e Employee's name, address, and ZIP code SALLY EMPLOYEE ANY STREET CITY, STATE ZIP CODE					
7 Social security tips	8 Allocated tips	9			
10 Dependent care benefits	11 Nonqualified plans	12a See instructions for box 12			
2100.00		C 341.00			
13 Statutory employee	14 Other	12b			
		D 8608.00			
Retirement plan		12c			
X					
Third-party sick pay		12d			
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax			
18 Local wages, tips, etc.	19 Local income tax	20 Locality name			

Form W-2 Wage and Tax Statement Dept. of the Treasury - IRS

WORKSHEETS AND TABLES

**FRINGE BENEFIT COMPENSATION VALUE FOR
EMPLOYER PROVIDED AUTOMOBILE**

This worksheet calculates the amount to be included in an employee's compensation due to personal use of an employer provided vehicle.

Period from _____ to _____

Employee Name: _____

Auto Description: _____

Annual Lease Value Method

1. Fair market value (per NADA book) as of auto acquisition date _____
2. Internal Revenue Service annual lease value for FMV on Line 1 _____
3. Prorate for period less than 12 months (ie 6mo/12mo = 50%) _____ %
4. Annual Lease Value (line 2 x line 3) _____
5. Personal use percentage (line 5a/line 5b)
 - a. Personal Miles _____
 - b. Total Miles _____
6. Calculated personal use of vehicle for time period (line 4 x line 5) \$ _____
7. Add: Additional amount for company provided fuel
 - a. Total personal miles from above _____
 - b. Less Mileage when fuel paid for personally (_____)
 - c. Total personal miles on company provided fuel
Line 7c x 5.5 cents/mile _____
8. Total additional compensation (line 6 + line 7) \$ _____

Cents-per-Mile Valuation

1. Personal Miles x 65.5 cents-per-mile effective January 1, 2023
 _____ x 0.655 = \$ _____
2. Less: Employee provided fuel (Personal miles x 6.5 cents-per-mile)
 _____ x 0.065 = (_____)
3. Total additional compensation (line 1 - line 2) \$ _____

EMPLOYEE'S AUTO USAGE STATEMENT

Employee _____

Please be advised, that _____ furnished the automobile described below for use on company business. However, I am providing the information shown below, to substantiate the business and personal usage of this automobiles.

Vehicle Information

Year	Make	Model
_____	_____	_____

I used this vehicle from _____ to _____ and compiled the following mileage records.

1. Beginning Odometer Reading _____
2. Ending Odometer Reading _____
3. Total Mileage during time period (line 2 - line 1) _____
4. Business Mileage _____
5. Nonbusiness Mileage/Personal Mileage (line 3 - line 4) _____

The above figures are based on my mileage records. I understand that I may be required to furnish support documentation if examined by the Internal Revenue Service.

Employee Signature

Date

TAXABLE COST OF GROUP-TERM LIFE INSURANCE

Employers can use this worksheet to calculate the amount to be included in an employee's income due to employer-provided group-term life insurance in excess of \$50,000.

Employee Name: _____

1. Amount of coverage	_____
2. Less nontaxable coverage	(50,000)
3. Excess coverage (line 1 - line 2) (if negative, there is no taxable compensation to the employee)	_____
4. Divide line 3 by \$1,000, round to the nearest tenth	_____
5. Cost of \$1,000 of coverage for one month from table, depending on the employee's age	_____
6. Monthly cost of excess coverage (line 4 x line 5)	_____
7. Number of months the employee was covered during the year	_____
8. Total cost of excess coverage (line 6 x line 7)	_____
9. Less total amount employee paid for coverage	_____
10. Employee's taxable compensation related to group-term life insurance in excess of \$50,000	_____

UNIFORM PREMIUMS FOR \$1,000 OF GROUP-TERM COVERAGE

Age	Cost per \$1,000 of Protection for One Month
Under 25	\$.05
25 to 2906
30 to 3408
35 to 3909
40 to 4410
45 to 4915
50 to 5423
55 to 5943
60 to 6466
65 to 69	1.27
70 and above	2.06

ANNUAL LEASE VALUE TABLE

<u>Automobile fair market value</u>	<u>Annual Lease Value</u>
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

For vehicles with a fair market value in excess of \$59,999, the annual lease value is equal to (.25 x the fair market value of the automobile) + \$500.

REFERENCES

REFERENCES

1. Practitioners Publishing Company (PPC), *Payroll Tax Deskbook*, Twelfth Edition, October 2006.
2. Practitioners Publishing Company (PPC), *Payroll Tax Deskbook, Quick Reference Binder*, Twelfth Edition, October 2006.
3. Practitioners Publishing Company (PPC), *Guide to Compensation and Benefits*, Eighth Edition, March 2007.
4. RIA Group, Tax Research Website, *Checkpoint*, www.checkpoint.riag.com.
5. IRS Publication 15 (Circular E) (2025), *Employer's Tax Guide*, December 2024.
6. IRS Publication 15-B (2025), *Employer's Tax Guide to Fringe Benefits*, December 2024.
7. Texas Workforce Press Release, *TWC Sets Employer Unemployment Insurance Tax Rates for 2025*, December 2024.
8. APS Payroll, *Payroll Taxes: Rates and Changes*, November 2024.