



BOROUGH OF HANOVER

ADOPTED MARCH 22, 2023

TAXABLE & NON-TAXABLE FRINGE BENEFITS POLICY

BACKGROUND

Fringe benefits include any property or service that an employee receives in lieu of, or in addition to, regular compensation or wages from an employer. Fringe benefits are taxable wages unless specifically excluded by the Internal Revenue Code (IRC).

For more information, please refer to *Publication 15b, Employer's Tax Guide to Fringe Benefits or the Taxable Fringe Benefit Guide for Federal, State, and Local Governments* available from the IRS.

The general valuation rule applies to most fringe benefits. Under this rule, the value of a fringe benefit is its fair market value (FMV). This is the amount an individual would have to pay a third party to buy or lease the same benefit. Neither the employee's subjective perception of the value, nor the employer's cost, determines the FMV of the benefit. In most cases, the actual cost and FMV are the same; however, there are also situations in which FMV and cost differ, such as when the employer incurs a cost less than the value to provide the benefit. For example, if an employee is allowed to stay in Borough-owned housing for free, the value of the housing is a benefit to the employee, even though there is no payment involved.

Taxable fringe benefits for employees will be reported as taxable wages on IRS Form W-2 at the fringe benefit tax rate of 22% which is the same rate for supplemental pay. Most taxable fringe benefits are subject to federal and state income tax withholding, as well as social security and Medicare taxes. This policy details the taxability of certain fringe benefits that may be provided to Borough of Hanover employees. The information set forth in this policy is intended to be in accordance with the Internal Revenue Service (IRS) tax code, and, while not exhaustive, is meant to provide employees with an understanding regarding the taxability of their fringe benefits.

While not an exhaustive list, the following are examples of fringe benefits that could be received by an employee from the Borough. Each type of benefit noted below includes relevant information on the nature of the benefit and tax implications for the recipient. To the extent that any benefits are deemed taxable, the supplemental wage withholding rate will apply.

TYPES OF FRINGE BENEFITS

No-Additional Cost Services

No-additional cost services are defined as any service provided for use by an employee if the Borough incurs no substantial additional cost in providing the service to the employee. Examples are recreational facility use and tickets to Borough sponsored events. No-additional cost services are considered nontaxable fringe benefits, unless only made available to highly compensated employees.

Working Condition Fringe Benefits

Working condition fringe benefits are any property or service provided to an employee for business purposes, that if the employee had paid for themselves, the payment would be deductible as a business expense. Such items are excludable from the employee's wages as a working condition fringe benefit if provided by the employer. Examples are business use of wireless communication devices and vehicles, professional dues, publications, and travel, training, and meeting expenses. Any personal use of these items is considered taxable income.

Employer costs related to employees' professional licenses/certificates and professional organization dues are excludable from wages if they are directly related to the employee's current position. Once an employee has completed the education or experience required for a professional license, the expenses necessary to maintain the license are considered ordinary and necessary business expenses and are considered a working fringe benefit that is not taxable to the employee, when paid directly by the Borough or reimbursed by the Borough subject to substantiation requirements (i.e. receipts). Expenses for professional licenses/certificates that qualify an employee for a new trade or business or assists them in meeting the minimum qualifications for their current or new position, do not qualify as a working condition fringe benefit and would be taxable if paid by the Borough.

De Minimis (Minimal) Benefits

De minimis fringe benefits include any property or service provided to an employee infrequently and that has a value so small that accounting for it is unreasonable and administratively impractical. De minimis fringe benefits are considered nontaxable to the recipient. Examples of items that may be excludable as de minimis, if they are infrequent, not routine, include:

- occasional coffee, soft drinks and snack items furnished to employees
- occasional parties, group meals, or picnics for employees and their guests
- occasional theater or sporting event tickets (not season tickets)
- traditional holiday gifts of property (not cash) with a low fair market value
- flowers, fruit, books, or similar items provided under special circumstances

Cash and cash equivalent fringe benefits (for example gift certificates, gift cards, and the use of a charge card or credit card), no matter how little, are taxable compensation to the employee.

If a benefit provided to an employee does not qualify as de minimis (for example the frequency exceeds a limit described earlier), then generally the entire benefit must be included in income. The threshold for de minimis benefits is \$75.00 per employee, per year.

Borough Provided Vehicles

Borough of Hanover vehicles should only be used for conducting Borough business and not for personal use. A Borough-provided vehicle is considered a non-taxable working condition fringe benefit if used exclusively for business purposes and meets substantiation requirements. Daily commuting between home and work is considered regular basis personal use and is taxable. The payroll division will calculate the taxable fringe benefit.

The Borough of Hanover Vehicle & Equipment Policy for Non-uniformed Personnel, which outlines the Borough rules for personal use and ability to take home vehicles, can be found at: <https://www.hanoverboroughpa.gov/DocumentCenter/View/794/Vehicle-and-Equipment-Policy--Adopted-5-26-2021-1>.

The methods to account for the taxable use of the Borough vehicles are as follows:

Cents-Per-Mile Method

Using this method, the FMV is determined by multiplying the IRS standard mileage rate by the number of personal miles driven. Two conditions must be met for use of this method. The vehicle must be driven at least 10,000 miles per year. The maximum FMV of a vehicle for use with this method is \$56,100.

Annual Lease Method

The annual lease value of the vehicle (via the IRS Annual Lease Value table) multiplied by the percentage of personal miles driven. This will provide the FMV of the employee's personal use of a Borough provided vehicle.

Equipment, Clothing and Allowances

In general, any equipment provided by the Borough, that represents ordinary and necessary business expenses, are excludable from income; however, if an employee is paid a supplemental amount (also called an allowance or reimbursement) in addition to their wages, regardless of whether the employee incurs an expense, all amounts paid are considered taxable wages. For example, if mechanics are paid a monthly stipend for tools regardless of purchase of any tools, the stipend will be taxable. This is also applicable to any monthly clothing allowance. In these cases, no receipts or substantiation would be required to receive the allowance or stipend.

Clothing or uniforms are excluded from wages, only if:

1. The clothing is specifically required as a condition of employment; and
2. The clothes are not worn or adaptable to general usage as ordinary clothing.

Safety equipment is excludable from employee wages if the equipment is provided to help the employee to perform their job in a safer environment. Safety boots and shoes, hard hats, and other safety equipment, such as safety glasses, are examples of non-taxable clothing items. Departments are strongly encouraged to ensure that uniform clothing has elements of safety or Personal Protective Equipment (PPE). Clothing that is high visibility (fluorescent yellow, green, orange), made with fire resistant materials, or has "retroreflective" material, is deemed to be PPE. As such, it is non-taxable as a fringe benefit to the employee.

Everyday clothing provided by the Borough including t-shirts, long-sleeved shirts, shorts, long pants, street shoes, and normal work boots or other items, used solely for protection from weather, such as winter coats, jackets, gloves, parkas, rubber boots, hats, and raincoats may be taxable to the employee. Without a PPE component, these items will be taxable as a fringe benefit to an employee and must be included on the W-2, even if the employee is prohibited by policy from wearing the clothing outside work. For example, Borough provided polo shirts with the Borough's logo will always be suitable for everyday use and must be included on the W-2, if the value exceeds the \$75 de minimis threshold on an annual basis.

The value of casual clothing issued to police and fire employees for work only is not considered taxable. The IRS has ruled that distinctively marked casual clothing issued to police and fire department employees to wear only while on duty was not taxable because the restriction on when the clothing could be worn made it not suitable for ordinary wear.

Relocation Reimbursements

The Tax Cuts and Jobs Act has suspended the exclusion for qualified moving expense reimbursements from employee's income for tax years beginning after 2017 through 2026. All moving expenses are now taxable to employees if reimbursed or paid on their behalf.

Lodging

The value of employer-provided lodging will be excluded from the employee's gross income if all of the following requirements are met:

1. the lodging is furnished on the business premises of the employer;
2. the lodging is provided for the convenience of the employer; and
3. the employee is required to accept the lodging as a condition of employment.

The failure to meet any one of these conditions will render this exclusion inapplicable, thereby causing the value of the housing to be included in the employee's income. Housing allowances are not excludable from income. If an employee is given a choice between living in certain employer-provided housing and receiving a cash allowance, then the housing is not excludable from the employee's income, even if the employee accepts the housing and there is no additional cost to the employer.

Group-Term Life Insurance

The employer must include in wages the cost of the premium for group-term life insurance in excess of \$50,000 worth of coverage. The premium for any employer-provided life insurance up to \$50,000 is a nontaxable fringe benefit to the employee. The Borough currently does not provide life insurance coverage that exceeds this limit.

Cash and Cash Equivalents

The value of any cash award or cash-equivalent gift certificate awarded to an employee is taxable in full and must be reported accordingly. Gift Certificates/Cards given by an employer are considered cash equivalent items and are never excludable from income. They are redeemable for general merchandise or have a cash equivalent value and therefore are not de minimis benefits and are taxable to an employee as wages, included on the Form W-2, and subject to Federal income tax withholding, social security and Medicare regardless of the value.

Prizes, Tickets and Gifts

The value of any prizes, gifts or awards provided to an employee is a taxable benefit, to the extent it exceeds the \$75 de minimis threshold, and must be reported accordingly. This includes the value of tickets/passes to events, for which there is no bona-fide business purpose, and the no-additional cost service exclusion does not apply. The employee distributing the prize, ticket, gift, or award on behalf of the Borough must track and report the required information to the payroll division.

Meal Expenses

Meals are excludable from wages of the employee if they are provided, both on the Borough's business premises and for the Borough's convenience. Meals are furnished for the convenience of the employer if they are provided for a "substantial non-compensatory business reason of the employer." Meals furnished as a means of providing additional compensation to an employee are not provided for the employer's convenience. De Minimis meals can also be excluded from an employee's income.

RESPONSIBILITY

Reporting Taxable Fringe Benefits

It is the responsibility of managers and supervisors to communicate to the payroll division when a taxable event has occurred, so that all required tax withholdings can be reflected in employee pay; however, employees who receive goods and services that they believe may qualify as an employer provided benefit, should bring it to the attention of their supervisor to ensure it is properly handled. Unless expressly excluded or deferred until a later year under the IRC, all taxable fringe benefits must be included in the employee's gross income in the year in which they are received.

When taxable fringe benefits are identified, departments are responsible for tracking and reporting the required information to the payroll division. The following required information related to the fringe benefit should be provided:

- Employee ID
- Employee name
- Date(s) that the benefits were provided
- Description of the benefits
- Value of the benefits with appropriate supporting documentation of the taxable value
- Name of the manager/supervisor/employee providing the benefits
- Signature of the manager/supervisor/employee

The posting of taxable income and the applicable withholding is dependent upon the timing of receipt of documentation by the payroll division. All communication related to taxable fringe benefits should be provided no later than three (3) days following the date that the benefits were provided.

This policy ensures a consistent valuation of Borough-provided fringe benefits and compliance with IRS regulations. It is intended that this policy conforms to the applicable provisions of the Internal Revenue Code. Nothing in this policy shall be construed to confer eligibility for benefits for which an employee is not otherwise eligible under federal/state law, policy or practice. This policy is not intended to address every circumstance that may arise in the provision of fringe benefits.

Accordingly, the basic standard that should always prevail is to exercise good judgment in the use and stewardship of the Borough's resources. The Borough reserves the right to amend this policy at any time without prior notice to conform with applicable laws and regulations.

If any questions arise regarding the taxability of a fringe benefit, please contact the Director of Finance for a final determination.

Department of Finance - responsible for oversight and administration of this policy.

Department Heads/Managers/Supervisors – responsible for communicating to payroll when a taxable event has occurred and adhering to the guidelines established within Borough and departmental policies.

Employees – responsible for documentation to determine taxability of the fringe benefit.