

## Fringe Benefits



The value of personal use of company cars, or any other taxable cash or non-cash benefit, must be included on Form W-2. Report these benefits before your last payroll for the year. Reporting taxable benefits with cash wages allows the appropriate withholding taxes to be deducted from an employee's check. If these amounts are processed without wages, you may be required to pay the employee's portion of social security and Medicare taxes.

The following is specific information about several types of benefits:

Any taxable cash or non-cash benefit you give to your employees must be included on their Forms W-2

### Group-Term Life Insurance

- Report the value of group-term life insurance in excess of \$50,000.00 before your last payroll for this year. The value is based on an IRS-published table that assigns a value for each \$1,000.00 of excess coverage per month based on the employee's age. If you do not know how to determine the value of the coverage, please contact your tax advisor.
- The value of group-term life insurance in excess of \$50,000.00 that is included in total wages is FICA taxable, even if the insurance was provided through a cafeteria plan. As an employer, you are liable for employee FICA if you decide not to withhold it from employees' pay. If you need to report group-term life insurance information for a terminated or retired individual, please contact your payroll representative to discuss your options.

## Employer Contributions to Retirement Plans

Employer contributions to retirement plans may be taxable in your state. Please consult your plan administrator for further taxability information.

If you are not already reporting these contributions with your payroll, please report them before your final payroll for the year. We need this information to ensure Box 13 of Form W-2 is correctly marked and reported to the IRS and SSA.

## Deferred Compensation Plans

In general, amounts deferred to Section 457 plans and non-qualified deferred compensation plans with a substantial risk of forfeiture become taxable for FICA and FUTA when the employee becomes vested (the employee's substantial risk of forfeiture lapses). This is not necessarily in the same year that the wages were earned.

When an employee becomes vested, provide your payroll contact with the following information:

- the date the employee became vested
- the amount of employee and employer current year contributions before vested date
- the total amount of employee and employer contributions for prior years
- the amount of employee FICA you collected on the employee and employer contributions

When a vested employee receives a distribution, please report the following information:

- the distribution amount
- whether this is a partial or full distribution
- the amount of federal tax withheld on the distribution
- the amount of employee FICA you collected on the employee and employer contributions

## Flexible Spending Accounts (FSA)

Contributions to a medical FSA are made pretax and are used to pay eligible out-of-pocket health and dental costs such as co-payments, deductibles, eye care expenses, contact lenses and solutions, braces, prescription drugs, certain over-the-counter items, and hospital care.

Salary reduction contributions to a Health Care FSA are limited to \$2,750 for 2020; 2021 limits have not been announced.

**Now** is the time to help your employees sign up for an FSA for next year. If you want to set up an FSA, inform your payroll contact.

## Dependent Care Assistance

On Form W-2, Box 10 (Dependent Care Benefits), employers are required to report the total amount of dependent care benefits paid or incurred for the employee, including any amount in excess of the \$5,000.00 exclusion. If you provided dependent care services to employees under an employer-sponsored program before your last payroll for the year, please report the benefits paid or furnished.

## Health and Accident Insurance Premiums Paid by an S Corporation

When an S corporation pays health and accident insurance premiums on behalf of 2% shareholder/employees, the IRS rules specify two tax treatments:

### Non-discriminatory Plan:

If the premiums are paid under a plan for employees and dependents in general, or for a class of employees and dependents, the following will occur:

- The premiums are exempt for FICA and FUTA tax
- The premiums are included in the shareholder/employee's federal gross income.
- The premiums are reported on Form W-2 in Box 1 (Wages, Tips, Other Comp.).

### Discriminatory Plan:

If the premiums are not paid under a specific plan for employees and dependents, the following will occur:

- The premiums are treated like normal compensation and as such are subject to FICA and FUTA.
- The premiums are included in the shareholder/employee's gross income.
- The premiums are reported on Form W-2 in the following boxes:
  - Box 1, Wages, Tips, Other Comp.
  - Box 3, Social Security Wage
  - Box 5, Medicare Wages and Tips

**If you paid these premiums for any shareholder/employees, please report the amounts and type of plan to your payroll contact before the last payroll of the year.**

## Educational Assistance Program

The exclusion for employer-provided educational assistance under a qualified Section 127 plan for 2020 is:

- Non-job related undergraduate and graduate courses are exempt up to \$5,250
- **All job-related education assistance reimbursements are exempt from withholding and employer taxes if they qualify as a working condition fringe benefit.**

**If you have not already reported these reimbursements with your payroll, please report them before your final payroll for the year.**

## Qualified Equity Grants

IRC Sec. 83(i) has been added due to the Tax Cuts and Jobs Act; this allows Qualified Employers to offer an option to Qualified Employees to defer income from Qualified Equity Grants.

Qualified employers who offer Restricted Stock Units (RSUs) now have the options to allow their employees to elect to defer federal income tax.

Typically, these plans would be administered by a third party company, who will issue the payments to the employee and withhold the applicable taxes. Those taxes would be forwarded to the employer and collected by Paychex when we process the entries.

### There are 3 stages where these amounts need to be reported:

**1.** Qualified Equity Grant deferred under IRC Sec. 83(i) for current calendar year.

- FIT exempt
- FICA taxable
- FUTA taxable

**2.** Aggregate Deferrals under IRC Sec 83(i) elections – You must provide these aggregate amounts

- FIT exempt
- FICA exempt
- FUTA exempt
- W2 box 12 = Code HH

**3.** Taxable Income from Qualified Equity Grants under IRC Sec. 83(i)

- FIT taxable (at supplemental rate, currently 37%) - You must report the tax to Paychex
- FICA exempt
- FUTA exempt
- W2 box 12 = Code GG

### Example:

Madeline receives a job offer. The company thinks Madeline's skill set is valuable and hopes she remains a long-term employee, so the company offers her 1,000 RSUs as part of her compensation, in addition to a salary and benefits. The company's stock is worth \$10 per share, making the RSUs potentially worth an additional \$10,000. To give Madeline an incentive to stay with the company and receive the 1,000 shares, it puts the RSUs on a five-year vesting schedule.

After one year of employment, Madeline receives 200 shares; after two years, she receives another 200, and so on until she acquires all 1,000 shares at the end of the vesting period.

Depending on how the company's stock performs, Madeline may receive more or less than \$10,000.

After one year of employment Madeline receives 200 shares of stock. We need to process the value of the 200 shares (\$2000) and tax it for FICA and FUTA. She defers federal income tax (FIT).

## Year 1

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- Process **\$2,000 X 7.65% = \$153 FICA** tax for Madeline and **\$153 FICA** and **\$12 FUTA** tax for employer. No net pay, will just add to income for tax. (#1)
- Process **\$2,000** Box 12 labeled HH (#2)
- Process 0 (#3)

## Year 3

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- Process **\$2000 X 7.65% = \$153 FICA** tax for Madeline and **\$153 FICA** and **\$12 FUTA** tax for employer. No net pay, will just add to income for tax. (#1)
- Process **\$6,000** Box 12 labeled HH (#2)
- Process 0 (#3)

## Year 5

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- Process **\$2000 X 7.65% = \$153 FICA** tax for Madeline and **\$153 FICA** and **\$12 FUTA** tax for employer. No net pay, will just add to income for tax. (#1)
- Process **\$10,000** Box 12 labeled HH (#2)
- Process 0 (#3)

## Year 2

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- Process **\$2,000 X 7.65% = \$153 FICA** tax for Madeline and **\$153 FICA** and **\$12 FUTA** tax for employer. No net pay, will just add to income for tax. (#1)
- Process **\$4,000** Box 12 labeled HH (#2)
- Process 0 (#3)

## Year 4

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- Process **\$2000 X 7.65% = \$153 FICA** tax for Madeline and **\$153 FICA** and **\$12 FUTA** tax for employer. No net pay, will just add to income for tax. (#1)
- Process **\$8,000** Box 12 labeled HH (#2)
- Process 0 (#3)

## Year 6-10

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- Process 0 (#1)
- Process 0 (#2)
- Process **\$2,000**. Box 12 Code GG. No net pay, just add to income for tax. The tax should have been withheld by the third-party provider at the supplemental rate (currently 37%); however, Paychex won't calculate the tax, we just enter what was withheld. You must report what was withheld to Paychex (#3)



## Additional Reporting Requirements

### Reporting Taxable Adjustments for Separated Employees

Taxable adjustments (for example, personal use of a company car, imputed value of group-term life insurance) should be reported with regular payroll whenever possible. Regular reporting of these adjustments allows required employee taxes to be withheld from wages. If taxable adjustments are reported without wages, the employer may be liable for the employee portion of taxes.

- When employees leave the company voluntarily or involuntarily, you should report taxable adjustments with the employees' last checks; otherwise, the employer may be liable for the employee portion of taxes.

If you pay any part of an employee's income tax or FICA withholding, the amount paid must be reported as additional taxable wages for the employee. Additional employment taxes, both employee and employer portions, must be withheld on this added income.

- If you cannot report taxable adjustments on an employee's last check, discuss it with your payroll contact. We can help you calculate the additional amount needed to cover the employee portion of FICA.

### Example of Tax Adjustments for Separated Employees

**Scenario:** You need to report \$100.00 as the imputed value of group-term life insurance in excess of \$50,000.

- If you report the \$100.00 with the employee's last paycheck, \$7.65 in employee FICA tax is withheld from the employee's wages. You are liable only for the employer's share of FICA. **Your total cost is \$7.65.**
- If you report the \$100.00 after the employee's last paycheck is issued, employee FICA cannot be withheld because no wages are being paid. You will be liable for the employee portion of FICA, plus the employer portion of FICA. You must report \$8.28 as wages to cover employee FICA. You will also have to pay \$8.28 for employer FICA. **Your total cost is \$16.56.**

The IRS formula for calculating the additional wages is:

$$\text{Total amount (gross)} = \frac{\text{taxable adjustment}}{1 - (\text{Sum of all employee tax percentages})}$$

Only FICA tax is required in this example:

**Step 1:** Total amount (gross) =  $\frac{\$100}{1 - .0765}$  =  $\frac{\$100}{.9235}$  = \$108.28

**Step 2:** Total amount – taxable adjustment = additional wages = (\$108.28 - \$100) = \$8.28



## Report Cost of Coverage Under Employer-Sponsored Health Plan

The IRS requires that employers who issued 250 or more Forms W-2 in the previous year report the cost of coverage under an employer-sponsored group health plan on their employees' Forms W-2. For Paychex to report these amounts on your Forms W-2 for 2020, you must provide them to your payroll contact before the year-end reporting deadline.

**Note:** All Vermont employers who issue Forms W-2 are required to report the cost of coverage under an employer-sponsored group health plan on their employees' Forms W-2