

Collecting "Taxable Benefit" Information

One of the challenges of the year-end payroll process is the correct collection and treatment of information about any and all taxable fringe benefits so that they are reported on Forms W-2 and taxes are withheld and deposited. Talk to other departments in your company, such as accounts payable or human resources, as they may be unaware that a benefit or payment they are handling is taxable.

Where to Begin

For starters, compile a list of possible taxable fringe benefits for your company. A good resource, which includes the rules on valuing and taxing various benefits, is IRS' *Employer's Tax Guide to Fringe Benefits* (Publication 15-B, <http://www.irs.gov/pub/irs-pdf/p15.pdf>). Read any employee handbooks or policy manuals. Examples of potentially taxable benefits include:

- Personal use of company cars
- Educational assistance
- Moving/relocation expenses
- Life insurance
- Loans
- Awards, prizes, gifts
- Third-party sick pay
- Dependent care
- Employee business expenses

You may want to examine the Forms W-2c that were prepared for the last tax year to see if there were certain benefits that are often overlooked.

Set Up Your Meeting

Next, hold a meeting to review the list with representatives of other departments, including accounts payable, human resources, benefits, accounting, and tax. Include someone from your information technology department or from your payroll service provider if any programming changes will be required to collect or report new information. For any newly "discovered" wages, you'll probably also need to consider how they will be recorded in the general ledger, whether they are subject to regular or supplemental wage withholding, and whether they are subject to state income tax or unemployment tax.

When Fringe Benefits Are Considered Paid

Any fringe benefit paid in cash and any taxable relocation expenses must be included in wages and are subject to withholding at the time they are paid. There is more flexibility with non-cash taxable fringe benefits, which may be considered "paid" at any time during the year in which they were provided.

"Grossing up" a Benefit


If, at the time you consider a benefit to be paid, the employee is no longer receiving wages from which to withhold income tax (federal, state, and/or local), social security tax, and Medicare tax, the employer must pay these taxes on behalf of the employee. However, doing so is another taxable benefit! Therefore, the original taxable benefit must be "grossed-up" by dividing its value by an amount equal to one minus the sum of all the applicable tax percentages.

For example, if an employee working in Alabama had been paid \$25,000 in wages in 2006 when he was awarded a \$500 television, but is no longer receiving wages at the time the payroll department learns about it, the total benefit to be included on the employee's W-2 is calculated as follows, using these tax rates: federal supplemental wage withholding = 25%, social security tax = 6.2%, Medicare tax = 1.45%; Alabama supplemental wage withholding = 5%.

$$\frac{\$500.00}{1 - (.25 + .062 + .0145 + .05)} =$$

$$\frac{\$500.00}{0.6235} = \$801.92$$

The employer will include \$801.92 as taxable wages on the employee's W-2, pay the \$301.92 in taxes on the employee's behalf (and, as always, match the social security and Medicare taxes), and include the tax amounts in their respective boxes on the W-2.

The American Payroll Association's strong partnership with the IRS and SSA allows it to include the most accurate and up-to-date information in its classes and publications, such as its book, The Payroll Source®. More information about the APA is available at <http://www.americanpayroll.org>. 

SSA/IRS

Reporter

SSA/IRS Reporter is published quarterly, Spring (March), Summer (June), Fall (Sept.), and Winter (Dec.) by the IRS Small Business/Self-Employed Communications Office.

Comments may be sent to :

John Berger, Editor

Send mail to (NOT for change of address):

Internal Revenue Service
Small Business/Self-Employed
Communications
Room 1100, Fallon Building
31 Hopkins Plaza
Baltimore, MD 21201

e-mail (NOT for change of address):

SSA.IRS.REPORTER@irs.gov

Fax: 410-962-2572

CHANGE OF ADDRESS? OUT OF BUSINESS?

Notify the IRS. Submit Change of Address Form 8822 available at <http://www.irs.gov/pub/irs-pdf/f8822.pdf> to the IRS center to which you sent your business returns. Please include your Employer Identification Number (EIN).

Cincinnati IRS Center
Cincinnati, OH 45999

Ogden IRS Center
MS:6273

Ogden, UT 84207

Attn: BMF Entity Control Unit

Outside US:

Philadelphia IRS Center
Philadelphia, PA 19255

About Reprinting Articles

This publication is covered under Title 17, Section 105 of the United States Code that stipulates a work prepared by an officer or employee of the United States government, as part of that person's official duty, places that work in the public domain. Go to <http://www.copyright.gov/title17/92chap1.html> for specific information.

IRS and SSA "Help" Telephone Numbers and Web Addresses Now on IRS.gov

IRS and SSA "Help" telephone numbers and Web addresses are now posted on IRS.gov at <http://www.irs.gov/businesses/small/article/0,,id=109886,00.html>.