Fringe Benefits: Employer-Provided Vehicles and Group-Term Life Insurance

A *fringe benefit* is a form of pay for the performance of services.

For example, you provide an employee with a fringe benefit when you allow that employee to use a council-owned vehicle to commute to and from work.

Taxable Fringe Benefits

Today we will focus on two types of *taxable* fringe benefits:

1. Personal use of council-provided vehicles.

2. Group-term life insurance (GTLI) coverage in excess of $50,000.

Some fringe benefits, such as GTLI coverage of $50,000 or less, may be excluded from employees' wages.

Taxable Fringe Benefits

Before you can determine the tax on a fringe benefit, you must assign it a *dollar value*.

IRS Publication 15-B, *Employer's Tax Guide to Fringe Benefits,* contains all the tools you will need.

Download a copy here:
http://www.irs.gov/pub/irs-pdf/p15b.pdf

Taxable Fringe Benefits

If your council provides vehicles to employees and they use the vehicles for personal reasons (i.e. commuting to and from work), you must tax them on the value of that personal use.

General Valuation Rule – the IRS uses this rule to determine the value of most fringe benefits. Under this rule, the value of a fringe benefit is its fair market value (FMV).

Taxable Fringe Benefits

Fair market value is the amount an employee would have to pay a third party in an arm's-length transaction to buy or lease the benefit.

For vehicles, the IRS will accept values obtained from the Kelley Blue Book, which is available online at http://www.kbb.com.

Taxable Fringe Benefits

There are different methodologies acceptable by the IRS in determining the value of the employer-provided vehicle fringe benefit such as the *Cents-Per-Mile* and *Commuting Rules.*

For most local councils the, *Lease Value Rule* is appropriate. Under this rule you determine the value of a vehicle you provide to an employee using its *annual lease value*.

Employer-Provided Vehicles

Generally, you must begin using the *Lease Value Rule* <u>the first day you make a vehicle available to any employee for personal use</u>.

You must use this rule for all later years in which you make the vehicle available to any employee (with some exceptions).

You must continue to use this rule if you provide a replacement vehicle to the employee and the primary reason for doing so is to reduce federal taxes.

Employer-Provided Vehicles

Calculate the Annual Lease Value (ALV) as follows:

1. Determine the FMV of the vehicle on the first day it is available to an employee for personal use.

2. Using Table 3-1 (see pp. 26-27, IRS Pub 15-B), read down column (1) until you find the dollar range under which the FMV of the vehicle falls. Then read across to column (2) to find the ALV.

Employer-Provided Vehicles

Next, determine the employee's personal use of the vehicle measured as a percentage of total miles driven during the year. Calculate by dividing the total *personal* miles driven for the year by the *total miles* driven for the year.

Multiply the ALV by the percentage calculated above (ALV is prorated if used < 12 mos.) to determine the amount to be included in the employee's wages. (Reduce by any employee reimb.)

Employer-Provided Vehicles

Not all inclusive… the ALV does not include the value of fuel provided for an employee's personal use. If your council pays for fuel, you must include the value of that fuel separately in the employee's wages.

One method used to calculate the inclusion amount for fuel is to multiply the employee's **total miles driven during the year by 5.5 cents**.

Employer-Provided Vehicles

Special Rules:

<u>4 year lease term</u> – the ALV is based on a 4 year lease term. This means that the ALV will be the same for each consecutive year in the four year period starting the first day the vehicle is made available to the employee for personal use. <u>You may revalue the vehicle starting on January 1 of the *next* four year term.</u>

Employer-Provided Vehicles

Special Rules (cont):

Transferring a vehicle from one employee to another – you may revalue the vehicle starting on January 1 of the year you transfer a vehicle to another employee unless the primary purpose of the transfer is to avoid federal taxes.

If your council has more than 20 vehicles, contact me "offline" for special rules.

Employer-Provided Vehicles

Special Rules (cont):

<u>Special accounting rule</u> – you may establish a valuation period other than a calendar year as long as you capture a full 12 months' of the fringe benefit's value in employees' wages each year. *This means that you could establish the period starting November 1 of one year ending October 31 the next to measure personal use of council-provided vehicles, for example.*

Employer-Provided Vehicles

Group-Term Life Insurance

Exclusion from wages – generally you may exclude the cost of up to $50,000 coverage of group-term life insurance (GTLI) from the wages of an insured employee. This also holds true for calculating SS, MC, and FIT.

Coverage over the limit – you must include in your employees' wages subject to SS and MC taxes the cost of GTLI > $50,000 reduced by the amount (in post-tax $) the employee paid for the insurance.

Calculate the *monthly* amount to include in the employee's wages by multiplying the number of thousands of dollars of coverage **over $50,000*** (rounded to the nearest $100) by the cost shown in Table 2-2 found on page 14 of IRS Publication 15-B (2012 edition). Use the employee's age on the *last* day of the year. <u>You must prorate the cost from the table if less than a full month of coverage is involved</u>.

*This amount available from IOI. Don't forget to include Scout Executives' Alliance.

Group-Term Life Insurance

The total amount to include in the employee's wages is the monthly cost calculated in the previous slide multiplied by the number of full months' coverage at that cost, reduced by amounts paid by the employee (in post-tax $ - no reduction for amts paid in pre-tax $).
See the example calculation on page 14, 2012 Publication 15-B.
http://www.scouting.org/sitecore/content/FinanceImpact/Council%20Fiscal%20Management/Document%20Library.aspx

Group-Term Life Insurance

Fringe Benefits - Reporting

You can treat the value of personal use of employer-provided vehicles and excess GTLI as being paid on a pay period, quarterly, semi-annually, annually, or on another basis provided that the benefits are treated as paid *no less than annually.*

You may elect not to withhold FIT on the employee's personal use of council-provided vehicles and excess GTLI (with some exceptions).

- Remember, always consult with your council's tax counsel before making any tax-related decisions.

- If you have questions or comments, please contact Fiscal Management @**(972) 580-2554.**

- Thank You -

Taxable Fringe Benefits