

## SAM—PAYROLLS

### WITHHOLDING AND REPORTING REQUIREMENTS FOR TAXABLE FRINGE BENEFITS AND EMPLOYEE BUSINESS EXPENSES

8572

(Revised 03/13)

Employment taxes (federal and state income, Social Security, and Medicare) apply to various employer payments, fringe benefits (FB), and employee business expense (EBE) reimbursements. FBs are generally cash, property, or services received from the employer in addition to an employee's regular pay. FBs are reportable and taxable income unless specifically excluded by federal and state tax laws, rules, regulations, etc.

Employer reimbursements for EBEs are taxable and reportable income unless the sponsoring employer's plan satisfies Accountable Plan provisions and any unique requirements applicable per federal and state tax laws, rules, regulations, etc.

Accountable Plan criteria include: (1) expenses must be job related—to the extent that the expenses would be deductible on an employee's personal income tax return; (2) employee must provide and sponsoring employer must validate a detailed accounting of the expenses (including time, business purpose, place, and expenditures validated by receipts); and (3) unsubstantiated amounts must be promptly returned to the employer.

EBEs must satisfy other specific requirements (e.g. uniforms must satisfy federal and state definitions of what constitutes a uniform as well as be provided under an Accountable Plan) before reimbursements qualify as non-taxable. EBE reimbursements failing to meet either Accountable Plan or other mandated requirements are considered issued under a non-Accountable Plan and are reportable and taxable income.

Taxation is based upon the actual reimbursement amount. For non-cash benefits such as personal use of a state provided vehicle, the fair market value of the benefit is generally used to determine the tax liabilities. The State Controller's Office (SCO) processes applicable tax withholding as follows:

Federal Income Tax:	25%
State Income Tax:	6.6%, except bonuses
Social Security:	6.2%
Medicare:	1.45%, an additional 0.9% in excess of \$200,000 per calendar year

Taxes are due (payable) and reportable upon constructive receipt of the EBE reimbursement or the FB by the employee. Employers must report taxable EBE reimbursement and FBs monthly to the SCO no later than the 10<sup>th</sup> of the month following the month of receipt. Applicable taxes are then withheld from the affected employee's next regular payroll warrant. For example, taxable overtime meal reimbursements/value of overtime meals received by the employee in March must be reported to the SCO by April 10. Failure to report timely violates legal requirements and subjects state department employers (including third parties such as an employee's supervisor) to civil and criminal actions.

The following EBE reimbursements and FBs have taxable/reportable requirements that mandate timely employer reporting as outlined in the State Controller's Payroll Procedures Manual (PPM) section N. Additional instructions can be located by accessing the SCO's Payroll Letters via their website at: [http://www.sco.ca.gov/ppsd\\_sco\\_letters.html](http://www.sco.ca.gov/ppsd_sco_letters.html). Payroll Letters provide interim procedures that may not yet be reflected in the PPM. PPM information is available at: [http://www.sco.ca.gov/ppsd\\_ppm.html](http://www.sco.ca.gov/ppsd_ppm.html)

Benefits include, but are not limited to: personal use of state provided vehicles and aircraft, awards, bonuses, incentives, bicycle and car mileage, entertainment expenses, educational assistance, electronic devices, housing, life insurance, loan programs, long term travel-indefinite, meals (travel and non-travel status), per diems, lodging, moving expenses/mileage, out placement, dues and memberships, scholarships, tickets, tips, gratuities, tool allowance, and uniform allowances.