

Payroll and Fringe Benefits Update

There are a number of fringe benefits provided to employees that must be included in employee income. *Please contact us, if we prepare your payroll reports, or your payroll service prior to year end to make sure each of these items are properly reported.*

For reference, here's a list of common fringe benefits that require attention. It's a partial list, but should get the thought processes rolling.

- Health Insurance paid by S Corporation for Shareholder – company paid health insurance for an S Corp shareholder is included in wages on Forms W-2 and 941, but is not subject to social security and Medicare taxes.
- Personal Use of Automobile – if the company provides an employee the use of a vehicle, the personal use represents a taxable benefit, subject to all taxes and must be included in wages.
- Group Life Insurance – company paid life insurance under a group policy has a small taxable benefit to an employee if the insurance is greater than \$50,000.
- Other Life Insurance – often, life insurance purchased by a company to fund a buy/sell agreement creates a taxable benefit to those shareholders that would gain value if the insured died. The taxable benefit is typically referred to as “PS58 cost” and reported on a Form 1099-R.
- Coverage under a Pension Plan – a box must be checked on Forms W-2 for each employee eligible to participate in a pension plan. This rule covers employees who are eligible but do not elect to participate & employees covered under a plan for which they make no contributions such as a SIMPLE IRA or SEP IRA, as well as 401(k) plans. Amounts an employee has had withheld under a plan are reported on their Form W-2.
- Disability Paid by a Third Party Payer – amounts paid under a taxable disability policy must be reported on a Form W-2. Many insurers leave the reporting up to the employer despite having made payments directly to the employee under an employer provided policy.
- Expense Allowances paid under a Non-Accountable Plan – reimbursements paid to employees for expenses they incur are typically not taxable to the employee & deductible to the employer if a plan is in place that requires employees to provide documentation for their expenses; in other words, if the reimbursements are for specific disbursements. If the company makes payments to employees without requiring an “accounting” of where the money went, the reimbursement payments are considered taxable wages & must be reported as such.
- Pre-Tax Plans for Medical Reimbursements & Child Care Expenses – make sure the calculations for taxable wages accurately reflect the withholdings. Additionally, the amounts withheld under a Child Care Reimbursement plan should be reported on an employee's Form W-2.