

TEXAS SOUTHERN UNIVERSITY
MANUAL OF ADMINISTRATIVE POLICIES AND PROCEDURES

SECTION: Fiscal Affairs

NUMBER: 03.04.04

AREA: Payroll

SUBJECT: Taxable Fringe Benefits

I. PURPOSE AND SCOPE

Texas Southern University (TSU) provides a variety of fringe benefits to employees in the course of its business. Such benefits not directly related to business are taxable for both the employer and the employee. Information presented in this administrative policy provides basic guidelines for identifying and recognizing taxable fringe benefits and related procedures. This policy is in accordance with Internal Revenue Code Section 132 and its respective treasury regulations.

This document, while primarily designed for employees, may extend to individuals not employed by TSU who receive taxable awards, prizes, gifts, or scholarships from the university. These guidelines are intended to conform to existing tax laws and are subject to amendment when new tax law changes are issued.

Conditions for a taxable fringe benefit vary according to the type of fringe benefit. Such benefits occur in many forms, ranging from meal allowances to housing allowances. Disposition of all possible taxable fringe benefits is beyond the scope of this policy. The income tax implications for the more common types of fringe benefits are set forth in the following sections of this document.

II. POLICY PROVISIONS

A. Fringe benefits occur in connection with the performance of services as supplemental economic gains provided by an employer to employees or third parties. Taxable fringe benefits include staff performance awards, life insurance for key employees, and cash car allowances.

B. Fringe benefits received in connection with the performance of services are included in gross income unless exchanged for fair market value or specifically excluded by law. Fringe benefits excluded under Section 132(a) of the Internal Revenue Code include:

1. Services provided at no additional cost to employer;
2. Qualified employee discount;
3. Working condition fringe; and
4. De minimis fringe (a "de minimis fringe" is any property or service (other than cash or its equivalent) whose value is so small that accounting for it is unreasonable or administratively impracticable, taking into account the

frequency with which similar fringe benefits are provided by the employer to its employees). TSU defines de minimis fringe benefits as non-cash and non-cash equivalent awards, prizes, or gifts equal to or less than \$50 in value.

Fringe benefits excluded by other Internal Revenue Code sections include qualified pension plans, group term life insurance, accident or health benefits, educational assistance and tuition reductions, and dependent care assistance. Individual facts and circumstances will be considered in meeting the above categories of fringe benefits, as defined by law.

- C. Taxable fringe benefits for employees are included with earnings, subject to any FIT and FICA withholding deductions, and reported on Form W-2.
- D. The following types of payments are reported on a Form 1099:
 - 1. Taxable fringe benefits totaling \$600 or more during a calendar year provided by the university to an individual not employed by TSU.
 - 2. Royalty payments to employees or non-employees, which are paid on a voucher through Accounts Payable, totaling \$10 or more during a calendar year.
 - 3. Certain taxable payments to employees for services paid through Accounts Payable on a voucher that total \$600 or more in a calendar year. These services may include commissions paid to employees for selling advertisements in university publications and payments to employees through the general ledger fund group, Agency. All other services performed by employees must be paid through Payroll and reported on Form W-2, unless approved by the Chief Financial Officer.
- E. Internal Revenue Code Section 62(c) requires that all business expense advances or reimbursements (i.e., travel and entertainment) be paid under a documented "accountable plan". This plan must contain provisions for the following:
 - 1. A business connection;
 - 2. Substantiation, to include amount, time, use, and business purpose; and
 - 3. Return of excess payments.
- F. TSU's accountable plan for documenting entertainment and travel expenses is detailed in MAPPs 03.01.02 Entertainment Expenditures and 03.01.05 Business Travel.
- G. A legal opinion for any tax-exempt housing provided by TSU is to be maintained on file with the Office of General Counsel and the Payroll Office. This opinion will state that such housing is for the convenience of the university, contained on business premises, and required to be accepted as a condition of employment.

III. PROCEDURE

- A. Except for fringe benefits identified in paragraph B above, a Personnel Action Form (PAF) will be submitted through Human Resources (HR) to initiate taxable payments or reimbursements to employees. These benefit amounts will be reported on the employee's Form W-2.
- B. Approved fringe benefits are defined in section C below. Proposed fringe benefits must be approved by the President or designee who will consider their purpose, frequency and propriety. Fringe benefits will be reviewed annually and modified at the discretion of the university.
- C. The following is a list of approved employee fringe benefits:
 - 1. Auto Allowance: Direct payments to employees to lease or purchase an automobile are considered 100 percent taxable income, even if the automobile is used in part for business purposes. These payments are paid through Payroll. University payments to a leasing company, finance company, or dealership on behalf of an employee are taxable to the extent the vehicle is used for personal use. These payments are made through Accounts Payable. Affected employees will be contacted by HR and must furnish the necessary information for computing a taxable income allocation.
 - 2. Awards, Prizes, and Gifts: Cash awards, prizes, and gifts to employees of any amount are taxable and paid through Payroll. Non-cash awards/prizes/gifts greater than \$50 or cash equivalent (i.e., gift certificates) of any amount are also taxable and paid through Accounts Payable.
 - 3. Club Memberships, Personal Use: The personal use of club membership dues provided by the university is included in an employee's gross income and subject to employment taxes. The amount of the personal use relating to the membership dues will be determined by HR through examining personal/business charges on the payment vouchers for the membership dues. Club memberships must be approved by the President or designee.
 - 4. Direct payments to employees for wireless communication devices and internet services are approved by the employee's supervisor and considered taxable compensation and accordingly are subject to required tax withholdings. Payment of such taxes incurred is the responsibility of the employee and shall not be reimbursed to the employee by TSU. A communication allowance is not considered an entitlement, is not part of an employee's base salary and may be changed and/or withdrawn by the institution or the employee's supervisor at any time.
 - 5. Discounts Greater than Twenty (20) Percent: Discounts to employees for university events, products, or services that exceed twenty (20) percent of the

price offered to the general public are normally taxable. However, these discounts are not taxable if the university can demonstrate that these discounts do not result in an increased cost to the institution.

6. **Housing Allowance:** Direct payments to employees to cover housing or utility costs are considered 100 percent taxable income to the employee and paid through Payroll. Housing paid by the university directly to an apartment complex or mortgage company or otherwise provided by the university may be excluded from the employee's income if all three of the following conditions are met:
 - a. Housing is on or in close proximity to the university's business premises;
 - b. Housing is furnished for the convenience of the university and for a substantial non-compensatory business reason, such as the employee must be available on a 24-hour basis; and
 - c. Housing is furnished as a condition of employment necessitated by the proper performance of duties. There is no exclusion if the employee may choose between free housing or a housing allowance.
7. **Human Subject Testing:** Direct payments to employees for participating in university-sponsored research studies or programs are taxable and paid through Payroll. Payments to third parties (i.e., principle investigators), who in turn pay employees, are paid through Accounts Payable on a voucher and the payment is recorded as income on the employee's earnings statement. Non-taxable payments to human subjects include travel and other expense reimbursements which are paid through Accounts Payable.
8. **Insurance Premium, Key Employees:** Life insurance policies provided by the university for key employees are paid through Accounts Payable and result in income to the employee. The rules governing the amount of income subject to employment taxes are dependent upon the type of insurance policy provided. The Office of Human Resources is responsible for monitoring the taxability of these premium payments.
9. **Moving Expenses:** Moving expenses are paid or reimbursed through Accounts Payable on a voucher in accordance with MAPP 02.03.06 – Moving and Relocation Expenses. Taxable and non-taxable expenses may be included on the same voucher under separate accounts. The following moving expenses are taxable to the employee:
 - a. **House Hunting:** All cost associated with a new employee and family members looking for a house or apartment in the vicinity of the new

place of employment. House hunting reimbursements are limited to one trip of no more than seven (7) days.

- b. **Taxable Non-Direct Expenses:** Includes certain expenses associated with transporting the employee and family members to the new home, such as meals and mileage over the amount specified by the IRS as non-taxable. However, airfare, lodging, and a portion of the mileage incurred during the trip to the new home are non-taxable as specified by the IRS.
- c. **Temporary Storage of Household Items Greater than thirty (30) days after Leaving the Previous Home:** While storage of items during the first thirty (30) days after leaving the previous home is non-taxable, storage and related insurance costs incurred after thirty (30) days is taxable.

The cost of transporting household items from the previous home (or storage) to the new home (or storage) is non-taxable. If this expense is reimbursed directly to an employee, the Internal Revenue Service requires that this be noted on the employee's Form W-2 as a non-taxable reimbursement.

- 10. **Non-Overnight Meals:** Meal expenses incurred while traveling within Texas or outside of Texas for only one day, without staying in a hotel overnight, are taxable if reimbursed. These expenses should be recorded with other travel expenses on the same voucher and reimbursed through Accounts Payable.
- 11. **Other Taxable Wages:** Includes all other taxable fringe benefits to employees that have been approved for payment or reimbursement by the President or designee. Payment will be made through Payroll or Accounts Payable, whichever is appropriate, and coordinated through Human Resources.
- 12. **Spousal/Family Travel, Non-Business:** If spousal or other family member(s) travel expenses do not qualify as a working condition fringe benefit, the university payment or reimbursement will be considered to be wages subject to employment taxes. Guidance for spousal travel qualifying as a working condition fringe benefit is provided in MAPP 03.01.06 Employee's Family Travel Expenses.
- 13. **Travel Advance, Delinquent:** Travel advances paid to employees must be accounted for within 180 days after the trip ends, or the advance is considered taxable income to the employee. Accounting for an advance includes completing a travel voucher (or other document required by the university) with an itemization of travel expenses, providing required

receipts and supporting documentation for travel expenses, and returning any portion of the advance to the component university that is greater than allowable, out-of-pocket travel expenses.

14. Tuition Reimbursement, Not Job Related: If the university's reimbursement of tuition to an employee is for training or education related to their current position, the reimbursement is non-taxable. However, if the training or education is not job-related, the reimbursement will be considered wages subject to employment taxes.

D. Payroll, in its capacity as withholding agent, shall coordinate with the Office of Human Resources to determine the fringe benefits tax reporting obligations of the university.

E. To lessen administrative burden at year end, the university has elected under the special tax accounting rule to treat the value of taxable benefits provided during the last two (2) months of the calendar year as paid in the next year. Thus, the value of benefits actually provided in November and December will be treated as provided together with the value of benefits provided in the first ten months of the following year.

F. Questions or issues concerning applicable tax laws or withholding agent responsibilities are to be directed to the Chief Financial Officer. This office will oversee the resolution of pertinent matters and coordination of reporting requirements among each of the areas of the universities.

IV. REVIEW AND RESPONSIBILITY

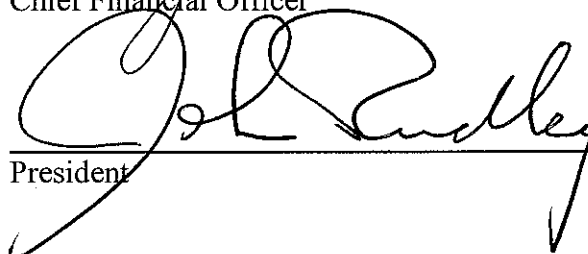
Responsible Party: Chief Financial Officer

Review: Every three years, on or before May 1

V. APPROVAL



Chief Financial Officer



President

Date of President's Approval: 11/23/09