

Tax Treatment of Common Fringe Benefits

Exempt vs. Nonexempt



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Any fringe benefit an employer provides to its employees is taxable and must be included in the recipient's pay unless the law specifically exempts it. The following chart summarizes whether certain types of fringe benefits are exempt from federal income withholding, Social Security and Medicare taxes, and the federal unemployment tax (FUTA). For more information, please consult IRS [Publication 15-B](#), *Employer's Tax Guide to Fringe Benefits*.

Treatment Under Employment Taxes				
Type of Fringe Benefit	Description of Fringe Benefit	Income Tax Withholding	Social Security and Medicare Tax Withholding (including Additional Medicare Tax when wages are paid in excess of \$200,000)	Federal Unemployment (FUTA)
Accident and Health Benefits	Includes employer contributions to the cost of health insurance and employer HSA contributions.	Exempt ^{1,2} , except for long-term care benefits provided through a flexible spending or similar arrangement.	Exempt, except for certain payments to S corporation employees who are 2% shareholders.	Exempt.
Gym Memberships	Includes the value of employer-paid fitness programs at an off-site athletic club.	Not exempt. However, the value of on-premises athletic facilities that the employer operates (e.g., a large corporation whose facilities include a gym and other similar amenities) is exempt, if substantially all use of the facility is by employees, their spouses, or their dependent children.		

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Treatment Under Employment Taxes (continued)

Type of Fringe Benefit	Description of Fringe Benefit	Income Tax Withholding	Social Security and Medicare Tax Withholding (including Additional Medicare Tax when wages are paid in excess of \$200,000)	Federal Unemployment (FUTA)
Educational Assistance	<p>These expenses generally include the cost of books, equipment, fees, supplies, and tuition, including graduate-level courses.</p> <p>These expenses do not include the cost of a course involving sports, games, or hobbies, unless it has a reasonable relationship to the employer's business or is required as part of a degree program.</p> <p>Education expenses also do not include the cost of tools or supplies (other than textbooks) the employee is allowed to keep at the end of the course; nor do they include the cost of lodging, meals, or transportation.</p> <p>Note: Employee substantiation of these expenses is required.</p>	Exempt up to \$5,250 of benefits each year.		
Employee Discounts	<p>Applies to price reductions given to employees on property or services the employer offers to customers in the ordinary course of business in which the employee performs substantial services.</p> <p>Employee discounts do not include:</p> <ul style="list-style-type: none"> • Discounts on a line of business for which the employee does not provide substantial services; • Discounts on property or services of a kind that aren't offered for sale to customers; • Discounts on real property; • Discounts on personal property of a kind commonly held for investment (such as stocks or bonds). 	Exempt ³ up to certain limits.		

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Treatment Under Employment Taxes (continued)

Type of Fringe Benefit	Description of Fringe Benefit	Income Tax Withholding	Social Security and Medicare Tax Withholding (including Additional Medicare Tax when wages are paid in excess of \$200,000)	Federal Unemployment (FUTA)
Employer-Provided Cell Phones	<p>Includes the value of the business use of an employer-provided cell phone, provided primarily for noncompensatory business reasons, including the employer's:</p> <ul style="list-style-type: none"> • Need to contact the employee at all times for work-related emergencies; • Requirement that the employee be available to speak with clients at times when the employee is away from the office; and • Need to speak with clients located in other time zones at times outside the employee's normal workday. <p>Does not include cell phones provided to promote goodwill, boost morale, or attract prospective employees (or as a means of providing additional compensation to an employee).</p>	<p>Exempt if provided primarily for noncompensatory business purposes. Personal use of an employer-provided cell phone, provided primarily for noncompensatory business reasons, is exempt as a de minimis (minimal) fringe benefit.</p>		
Group-Term Life Insurance Coverage	<p>Applies to life insurance coverage that meets certain conditions, including that it is provided under a policy directly or indirectly carried by the employer.</p> <p>It does not include the following insurance:</p> <ul style="list-style-type: none"> • Insurance that doesn't provide general death benefits, such as travel insurance or a policy providing only accidental death benefits; • Life insurance on the life of the employee's spouse or dependent (however, this may be excludable as a <i>de minimis</i> benefit); • Insurance provided under a policy that provides a permanent benefit, unless certain requirements are met. 	Exempt	Exempt ^{1,4,6} up to cost of \$50,000 of coverage. (Special rules apply to former employees.)	Exempt

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Treatment Under Employment Taxes (continued)

Type of Fringe Benefit	Description of Fringe Benefit	Income Tax Withholding	Social Security and Medicare Tax Withholding (including Additional Medicare Tax when wages are paid in excess of \$200,000)	Federal Unemployment (FUTA)
Meals	<p>Includes <i>de minimis</i> meals and meals on the employer's business premises. This does not include cash allowances for meals.</p> <p><i>De minimis</i> meals include any occasional meal an employer provides to an employee if it has so little value that accounting for it would be unreasonable or administratively impractical, such as:</p> <ul style="list-style-type: none"> • Coffee, doughnuts, or soft drinks; • Occasional meals or meal money provided to enable an employee to work overtime (but does not apply to meal money provided on a regular or routine basis); • Occasional parties or picnics for employees and their guests. 			
Moving Expense Reimburse-ments	<p>Applies to any amount given to an employee as payment for, or reimbursement of, moving expenses related to starting work at a new principal place of work, including:</p> <ul style="list-style-type: none"> • Moving household goods and personal effects from the former home to the new home; and • Traveling (including lodging) from the former home to the new home. <p>Moving expenses do not include any expenses for meals and must meet both a distance test (met if the new job location is at least 50 miles farther from the employee's old home than the old job location was) and a time test (met if the employee works at least 39 weeks during the first 12 months after arriving in the general area of the new job location).</p>			

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Type of Fringe Benefit	Description of Fringe Benefit	Income Tax Withholding	Social Security and Medicare Tax Withholding (including Additional Medicare Tax when wages are paid in excess of \$200,000)	Federal Unemployment (FUTA)
Transportation Benefits	<p>Qualified transportation benefits (includes rides in a commuter highway vehicle, transit passes, qualified parking, and qualified bicycle commuting reimbursement).</p> <ul style="list-style-type: none"> • A commuter highway vehicle is any highway vehicle that seats at least 6 adults (not including the driver). • A transit pass is any pass, token, farecard, voucher, or similar item entitling a person to ride, free of charge or at a reduced rate, on mass transit (bus, rail, or ferry) or in a vehicle that seats at least 6 adults (not including the driver) if the person operating it is in the business of transporting persons for pay or hire. • Qualified parking is parking an employer provides on or near its business premises, including parking on or near the location from which employees commute to work using mass transit, commuter highway vehicles, or carpools. It does not include parking at or near the employee's home. • Qualified bicycle commuting reimbursement includes any employer reimbursement of (during a certain period of time) the purchase of a bicycle and bicycle improvements, repair, and storage. 	Exempt ¹ up to certain limits if for rides in a commuter highway vehicle and/or transit passes (\$255), qualified parking (\$255), or qualified bicycle commuting reimbursement ⁵ (\$20).		
	<p><i>De minimis</i> transportation benefits (applies to occasional local transportation fare given to an employee because he or she is working overtime—so long as the benefit is reasonable, isn't based on hours worked, and isn't provided on a regular or routine basis).</p>	Exempt.		
	<p>Gas mileage reimbursement (the costs of an employee operating his or her car for business purposes).</p>	Not exempt. However, these costs are deductible—an employee may use the IRS standard mileage rate , or may be able to deduct his or her actual car expenses.		
	<p>Company vehicles (employee use of a company car for business is considered a working condition benefit).</p>	Exempt only if the expenses would be deductible if the employee had paid them. If the employee uses the car for both business and personal use, the value of the working condition benefit is the part determined to be for business use of the vehicle.		

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Treatment Under Employment Taxes (continued)

- ¹ Exemption does not apply to S corporation employees who are 2% shareholders.
- ² Exemption does not apply to certain highly compensated employees under a self-insured plan that favors those employees.
- ³ Exemption does not apply to certain highly compensated employees under a program that favors those employees.
- ⁴ Exemption does not apply to certain key employees under a plan that favors those employees.
- ⁵ If the employee receives a qualified bicycle commuting reimbursement in a qualified bicycle commuting month, the employee cannot receive commuter highway vehicle, transit pass, or qualified parking benefits in that same month.
- ⁶ You must include in your employee's wages the cost of group-term life insurance beyond \$50,000 worth of coverage, reduced by the amount the employee paid toward the insurance. Report it as wages in boxes 1, 3, and 5 of the employee's Form W-2. Also, show it in box 12 with code "C." The amount is subject to Social Security and Medicare taxes, and you may, at your option, withhold federal income tax.

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