

ADDITIONAL WAGES

- Non Cash Compensation
 - Gym Memberships
 - Telecommuting
 - Forgiveness of Debt and Student Loan Repayment
 - Moving Expenses –an overview
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- A decorative graphic at the bottom of the slide consisting of a silhouette of a mountain range in a teal color, matching the background.

NONCASH COMPENSATION

- Included in income
- Valued at FMV
 - Subject to income tax withholding
 - Subject to FICA
 - Reported on employee's Form W-2

Health Club Memberships

- Employer provided on-premises facility is not a taxable fringe
 - Must be located on employer premises
 - Must be operated by the employer
 - Substantially all use is by employees of the employer, employee spouses, and dependent children
 - Employer must submit a copy of W-4 only if directed to do so by written notice

Health Club Memberships

- If employer pays for a fitness program at off-site hotel, athletic club, etc., the value is included in compensation

Telecommuting Expenses

Reimbursable \neq Non-Taxable

Public Law 104-52, section 620

- Made appropriated fund funds available for the installation & monthly charges of telephone lines in the residences of EE's allowed to work at home, as long as there is
 - Adequate safeguards against private misuse; &
 - It is necessary to support the agency's mission

Agenda Items

- Public Law 104-52, section 620
 - Accountable Plan Rules
 - Telephone Expenses
 - Internet Service Provider
- 

FMR Bulletin 2006-B3

- Public Law 104-52 authority includes facsimile machines, internet services, broadband access, e-mail services, voice over IP equipment and services, desktop videoconference equipment and services, and in general, any other telecommunication equipment and services the agency deems needed by individuals working in home-based AWA.

Accountable Plan Tests

- Business Connection [Reg. §1.62-2(d)]
- Adequate Accounting [Reg. §1.62-2(e)]
- Return of Excess [Reg. §1.62-2(f)]

Business Connection

- The expense is a helpful and appropriate to perform their job, and
- The expense must be an ordinary and necessary business expense. Ordinary and necessary doesn't include personal expenses (Reg. §1.162-17).

Adequate Accounting

- The employee must adequately account to their employer within a reasonable period each time that they have incurred a business expense

Return of Excess

- If the employer reimburses the employee an excess amount, it must be returned within a reasonable period

Is it an Accountable Plan?

- If the reimbursement fails any of the three tests it is not an accountable plan. The payments are to be included in the EE's gross income, reported as wages on Form W-2 and subject to income tax W/H and all applicable employment taxes.

Basic Telephone Service

- Reimbursement for the basic cost, including taxes, for the first line is taxable
- Reimbursed long distance expenses that meet the accountable plan rules are non-taxable
- Reimbursement for other services maybe non-taxable

Additional Telephone Lines

- The reimbursement of all of the costs of the additional lines would be non-taxable if the accountable rules are met
 - Business Connection
 - Adequate safeguards against private misuse; &
 - It is necessary to support the agency's mission
 - Substantiate the expense
 - Any excess reimbursement returned

Internet Service Provider

- For the reimbursement of the cost of employee's cost of an internet service provider to be non-taxable the accountable plan rules must be met.

Areas of Concern

- Actual business use must be established. A general statement of use is not sufficient
- Only business use reimbursed
- Employee must substantiate to their employer each business expense
- Any excess reimbursement must be returned to the employer within a reasonable time

Review

- Reimbursement of the basic telephone charges for the first line taxable
- Reimbursement of actual business use is non-taxable
- A EE general statement regarding use is not sufficient
- Reimbursement for personal use is taxable

Reporting And Withholding On Employee Student Loan Repayments

A stylized silhouette of a mountain range in a darker shade of teal, located at the bottom right of the slide.

Background

- OPM administered program
- Increasing use by agencies
- FY2007--\$42.2 Million by 33 agencies
- CY2008--\$51.1 Million by 35 agencies
- CY2009--\$61.8 Million by 36 agencies

Taxable?

- Yes-compensation for services-IRC 61
 - Federal Income tax-taxable and subject to withholding
 - FICA and Medicare-taxable, as applicable and subject to withholding
 - Decreases the actual amount of loan repayment
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Exceptions to Taxability of Loan Repayments

- Loan repayments attributable to periods of service in combat zones by certain members of the armed forces - IRC Section 112
- Payments made after 12/31/2003 by National Health Service Corps (NHSC) loan program
- (American Jobs Creation Act of 2004)

Reporting and Withholding on Student Loan Repayments

- Report employees' loan repayment on form W-2
 - In its entirety for FIT wages (Box 1) and Medicare (Box 5)
 - For FICA (Box 3) to extent repayments and wages do not exceed annual FICA wage base

Reporting and Withholding on Student Loan Repayments

- Withhold and pay federal income tax on the loan repayment
- Withhold and pay employees' share of FICA, as applicable, and Medicare
- Pay employers' share of FICA and Medicare

Withholding Methods

- Federal Income Tax
 - Flat rate -25% or
 - Combine with regular wages for the applicable pay period

Example

- \$6000 loan payment on behalf of employee whose wages are subject to Social Security
- Include \$6,000 in Boxes 1, 3 and 5 of form W-2.
- Withhold 25% FIT (\$1500) and include in W-2 Box 2 FIT withheld
- Withhold 7.65% FICA/Medicare-\$459- Reflect accordingly in boxes 4 and 6
- Net payment to loan holder reduced accordingly

Discharge/forgiveness of Student Loan

- Excludable as income under IRC 108 (f)
- Forgiveness of loan in exchange for commitment to serve in public-service oriented occupation
- Loans covered by this rule include those made by:
 - U. S., or instrumentalities thereof

Helpful Forms and Pubs

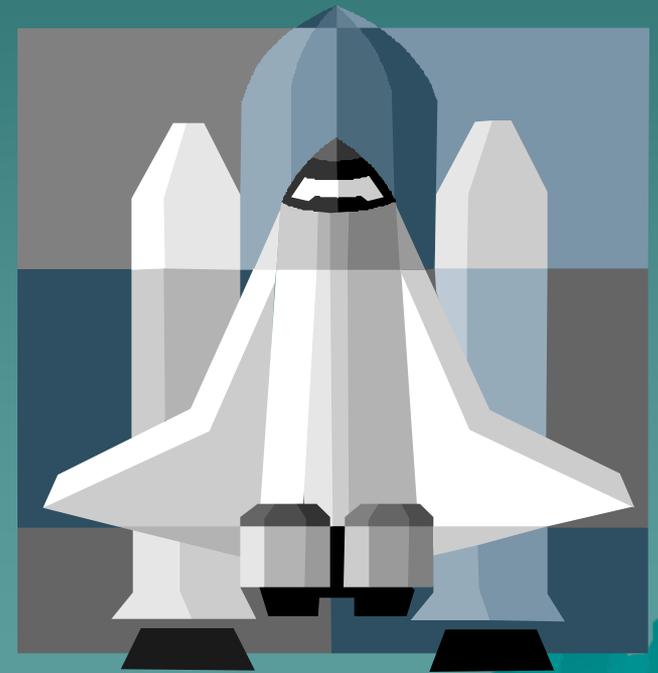
- Pubs:
 - 15, 15-A, 15-B-Employers Tax Guide; Supplemental Tax Guide, and Employer's Guide to Fringe Benefits
- Web sites:
 - www.opm.gov

What is PCS (Permanent Change of Station)?

- It is an employer relocating an employee from one residence or location to another residence or location ...

AND

- The employer reimburses the employee for moving expenses.



Why is PCS important?

The majority of PCS moving expense reimbursements are included in the employee's gross income and are taxed.



Terminology

- Permanent Change of Station (PCS)
- Relocation
- Expense of Moving (Allowance)
- Reimbursement
- Taxable
- Non-Taxable
- Gross Income
- Wages



Code of Federal Regulations 1.82- 1(a)(1)

Reimbursements in Gross Income

In general

Any amount received or accrued, directly or indirectly, by an individual as a payment for or reimbursement of expenses of moving from one residence to another residence attributable to employment or self-employment is includible in gross income under section 82 as compensation for services in the taxable year received or accrued.

Internal Revenue Code Section 132(a)(6)

Certain Fringe Benefits

Exclusion from Gross Income –

Gross income shall not include any fringe benefit which qualifies as a qualified moving expense reimbursement .

Taxable PCS Allowance Reimbursements

- En Route Meals
- House Hunting Trip Expenses
- Temporary Quarters Subsistence Expenses
- Real Estate Expenses
- Household Goods Storage (after 1st 30 days)
- Miscellaneous Expenses
- Relocation Services (Home Marketing Incentive)
- Withholding Tax Allowance (WTA)
- Relocation Income Tax Allowance (RITA)

Non-Taxable PCS Allowance Reimbursements

- Household Goods Shipment
- Household Goods Storage (1st 30 days)
- En Route Travel
 - Lodging
 - Transportation (including airline tickets)
- Privately Owned Vehicle Shipment

Taxable PCS Allowance Reimbursements

- Form W-2
 - Box 1 [Wages, Tips]
 - Box 2 [Federal Income Tax Withhold]
 - Box 3 [Social Security Wages]
 - Box 4 [Social Security Tax Withheld]
 - Box 5 [Medicare Wages and Tips]
 - Box 6 [Medicare Tax Withheld]

Non-Taxable PCS Allowance Reimbursements

- Form W-2
 - Box 12
 - Code P
 - Excludable Moving Expense Reimbursements Paid Directly to Employee; and
 - Not Included in Boxes 1, 3, 5

Additional Information



Code of Federal Regulations

Title 41

Public Contracts & Property Management

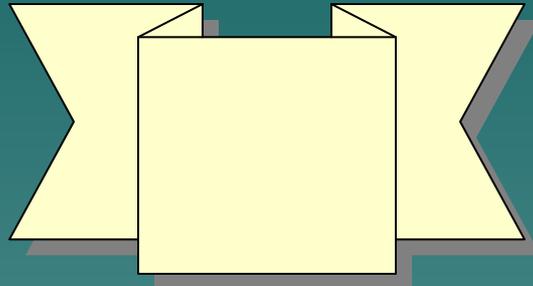
Subtitle F

Federal Travel Regulation System

Chapter 302

Relocation Allowances

Compliance Issues



- Household Goods Storage
- Relocation Services Company

Household Goods Storage

Taxable PCS
Allowance Reimbursement

Household Goods Storage
(after 1st 30 days)

Household Goods Storage

Non-Taxable PCS
Allowance Reimbursement

Household Goods Storage
(1st 30 days)

Household Goods Storage

Internal Revenue Code Section 217

Moving Expenses

Deduction Allowed

A stylized silhouette of a mountain range in shades of teal, located in the bottom right corner of the slide.

Relocation Services Company

Does it represent a
taxable or non-taxable
PCS allowance
reimbursement?

CFR; Title 41; Subtitle F; Chapter 302

Part 302-12.100

“Relocation services” are services provided by a private company under a contract with an agency to assist a transferred employee in relocating to the new official station.

Examples include home sale programs, home marketing assistance, home finding assistance, and property management services.

CFR; Title 41; Subtitle F; Chapter 302

Part 302-12.102

You may pay for contracted relocation services that are substitutes for reimbursable relocation allowances.

For example, you may pay for home sale services as a substitute for residence sale expenses, or household goods management services as a substitute for transportation of household goods.

CFR; Title 41; Subtitle F; Chapter 302

Part 302-12.108

Amounts you pay to a relocation services company on behalf of an employee may be taxable to the employee.

In some cases, such as certain home sale programs, the amounts may not be taxable.

You must determine the taxability of such payments, and pay a relocation income tax (RIT) allowance in accordance with part 302-17 on payments you determine to be taxable to the employee.

Relocation Services Company

Revenue Ruling 2005-74

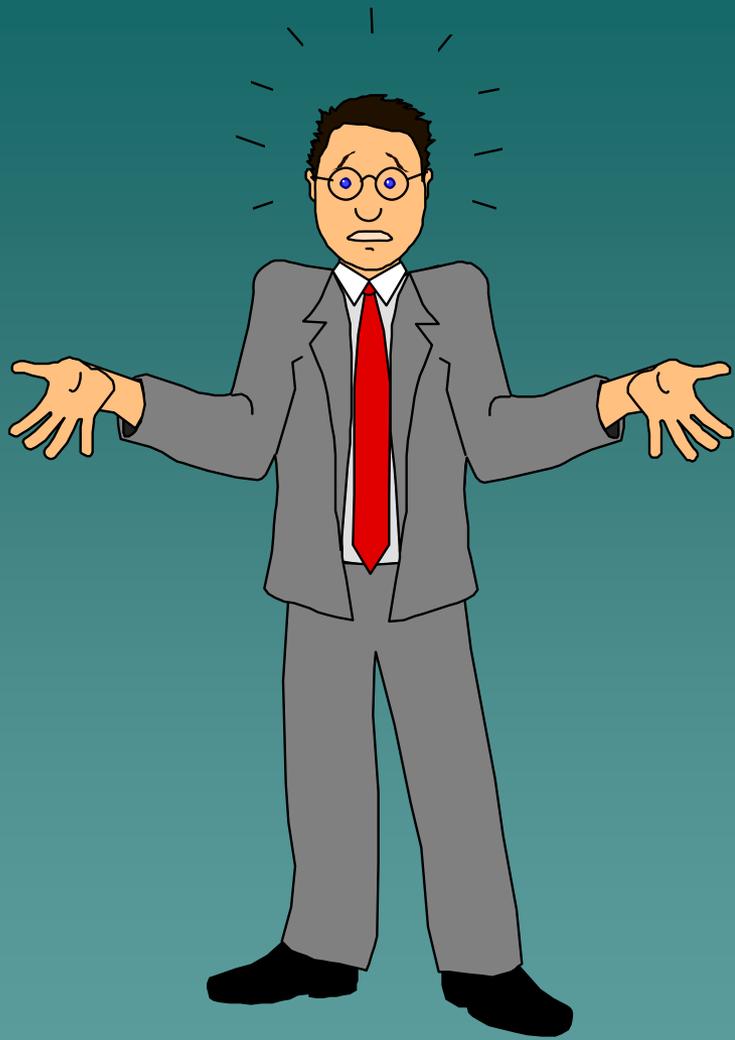
Employee Relocation Costs

This ruling addresses the tax treatment of costs an employer incurs in connection with different home purchase programs the employer may offer to employees who are being relocated.

In Summary

- The value of PCS expenses of moving may be includable in gross income.
- **IRC§82** provides that there shall be included in gross income (as compensation for services) any amounts received as payment for or reimbursement of expenses of moving from one residence to another which is attributable to employment.

- **IRC§132(g)** provides an exclusion for qualified moving expense reimbursements.
- Under **IRC§132(g)**, an employee may exclude the amount paid or reimbursed by the employer that would be deductible under **IRC§217**.
- Under **IRC§217**, only the costs of moving personal belongings and traveling to the new location are deductible.
- Costs such as meals and lodging in temporary quarters are not deductible under **IRC§217**.



QUESTIONS ?