

Town of Meredith - Administrative Regulation

Effective Date: April 1, 2006

Regulation No: 21

Revision Date:

Supersedes:

Approved by: Phillip L. Warren, Jr.

Subject: FRINGE BENEFITS POLICY

I. DEFINITION:

A fringe benefit is a benefit to an employee paid by the Town of Meredith in addition to salary. Depending on the nature, fringe benefits may be nontaxable or taxable. If taxable, the benefit is added to the employees' calendar-year-end tax statement W2.

The Town of Meredith uses the flat 25% withholding rate for Federal, and, if applicable, 1.45% Medicare and 6.2% Social Security withholding on supplemental wages as defined in [IRS Publication 15B, Employer's Tax Guide to Fringe Benefits](#). The [IRS's Taxable Fringe Benefit Guide](#) contains helpful information regarding the taxability of fringe benefits.

Certain fringe benefits listed within this policy may not be provided to all or any Town of Meredith employee(s). This policy is intended for the purpose of informing Town of Meredith employees about relevant tax issues. This policy does not constitute legal or tax advice. Individuals should consult with their attorneys or tax professionals for advice on personal issues.

II. OVERVIEW:

Since the Internal Revenue Code (IRC) frequently changes, the information contained within this policy is based on the IRC as of January 1, 2006, unless otherwise noted. Fringe benefits are a form of pay, including cash and non-cash compensation, such as property or services, for the performance of services given by the provider of the benefits to the recipient of the benefits. For purposes of this policy, the provider, also commonly referred to as the employer, is the Town of Meredith, and recipients, individuals performing services in connection with a fringe benefit, are referred to as employees. Gross income is defined as all income from whatever source derived, unless specifically excluded by law. Since fringe benefits are a form of compensation, the value is generally included in an employee's gross income and is subject to income and employment tax withholding. However, as outlined under a number of IRC provisions, a number of exceptions exist where certain fringe benefits are explicitly excluded from gross income.

In the event that an employee pays for a portion of a benefit received, the amount by which the fair market value of the benefit is greater than the amount paid by the employee is included in the employee's gross income. Due to the numerous fringe benefits available for employers to

provide employees and since the tax treatment of fringe benefits can vary depending on the facts and circumstances of each situation, this policy is intended to provide a brief background of the tax treatment for fringe benefits that may be offered to employees or are applicable to the Town of Meredith.

III. MUNICIPALLY OWNED VEHICLES:

The personal use of a municipally owned vehicle is a taxable fringe benefit. Personal use includes the value of commuting to and from work in a municipal vehicle, even if the vehicle is taken home for the convenience of the employer. The value of the fringe benefit must be included in income as wages and is subject to income and employment taxes. There are three methods that can be used to determine the value of the vehicle provided to the employee: (1) Commuting Value Rule, (2) Cents Per Mile Rule and (3) Automobile Lease Rule. The Town of Meredith will use the Commuting Value Rule according to [IRS Publication 15B, Employer's Tax Guide to Fringe Benefits](#). To make these determinations on individual vehicles the Administrative Services will meet with each employee assigned to a town vehicle and go over their options and their responsibility for the record keeping of the vehicle assigned. It is the Town of Meredith's responsibility to determine the actual value of this benefit and to include the taxable portion in the employee's income. A *Qualified non-personal use vehicle* qualifies as a working fringe. The Town of Meredith will exclude the value of this use from the employee's income. A qualified non-personal use vehicle is any such vehicle the employee is not likely to use more than minimally for personal purposes because of its design. Qualified non-personal use vehicles for the Town of Meredith includes clearly marked police and fire vehicles. All other municipally owned vehicles with the Town of Meredith qualify as a non-cash fringe benefit.

IV. VEHICLE ALLOWANCES:

The set amount paid weekly, monthly or yearly to an employee that does not have to account for mileage on the use of a personal vehicle is subject to employment taxes. Please see Vehicle Policy for additional conditions.

V. MILEAGE:

Mileage will be paid to any employee for the use of a personal vehicle to conduct Town Business. The employee must submit a mileage sheet to the Administrative Services Department with to and from mileage and destination points. The Mileage reimbursement per mile rate is the rate set forth by the IRS. The amount paid for mileage is not taxable and will be paid through accounts payable.

VI. EMPLOYER PROVIDED CLOTHING AND CLOTHING ALLOWANCES:

Clothing provided by the Town of Meredith is not taxable to the employee if the employee must wear them as a condition of employment and the clothes are not suitable for every day wear. If the clothing does not qualify, as a deductible expense (i.e. is a uniform), then these

payments must be treated as a taxable fringe benefit and paid through payroll, subject to all employment taxes.

**Examples that would apply to the Town of Meredith:
Taxable Clothing:**

- *Any* t-shirt, sweatshirt, long sleeve shirt, jacket, etc, with the Town of Meredith name and Logo
- Lifeguard Swim Suits
- Clothing allowance for plain clothed police officers
- Jeans
- Any other clothing that falls under then “suitable for every day wear”

Departments ordering clothing with the Town of Meredith Logo are to submit itemized invoices by employee to payroll for that department to make the determination if the clothing is taxable and make the necessary employment tax deductions.

Exclusions:

- Police and Fire Uniforms
- Uniforms through Alltex
- \$100 Boot Allowance for positions that require an employee to wear steel toed boots or special ordered police foot wear

VII. HEALTH INSURANCE OPT-OUT:

The Town of Meredith offers an Opt-Out benefit for those employees who have health coverage through other means (see the Town of Meredith Personnel Policy). Any employee participating in the Opt-Out program will be subject to employment taxes on the benefit amount.

VIII. SECTION 457 – NON-QUALIFIED PLAN:

Section 457 is a non-qualified plan for employees of tax-exempt organizations and governments. The employer’s portion of these contributions is subject to employment taxes.

IX. PUBLIC EMPLOYEES GROUP TERM LIFE INSURANCE:

An employer may exclude from income the cost of up to \$50,000.00 of group term life insurance from the employee’s wages. If the employee receives more than \$50,000.00 of such insurance, only the IRS-determined cost of the excess is includable as wages. The Town of Meredith will use the table from to [IRS Publication 15B, Employer's Tax Guide to Fringe Benefits](#) to calculate the includable amount.

X. CELL PHONE:

The Town of Meredith offers cell phones to certain employees for business use. Any employee that is issued a Town owned cell phone and utilized the phone at any time for personal use, the cell phone and billing costs will be subject to employment taxes on the benefit amount. See Cell Phone Policy Administrative Regulation for further details.

Phillip L. Warren, Jr.
Town Manager