

## **Administrative Order No. 114**

# **Fringe Benefits Procedure**

### **Purpose**

This procedure explains the Internal Revenue Service (IRS) rules about taxability of certain employee fringe benefits and how the City of Billings must apply the IRS rules.

### **Taxable Benefits**

Federal law and the IRS exempt certain employee benefits from federal income tax. The City of Billings provides its employees with non-taxable employee benefits such as health insurance. The IRS has determined that some employee benefits are taxable because they tend to benefit only a few or select groups of employees. Clothing allowances are taxable unless several rules are satisfied. City vehicles taken home by on-call or other City employees are a taxable benefit, although public safety employees are exempt. Gift cards, movie tickets and other gifts that are equivalent to cash are taxable benefits. Reimbursement for tuition and books of more than \$5,250 per year is a taxable benefit.

### **Procedure**

*Clothing allowances* will be tax exempt if they meet the criteria of an accountable plan and the clothing is non-conductive to everyday wear. The employee may purchase the clothing and receive reimbursement or the City may purchase the clothing through a centralized vendor. In either case, divisions/departments must account for all items of clothing that it or employees purchase, who received the clothing or reimbursement and for the dollar amount of each purchase.

- Non-conductive to everyday wear means that the reimbursable work clothing must be styled, identified or otherwise clearly intended only for work and not for personal usage.
  - An example of non-conductive to everyday wear is:
    - A uniform shirt with a City logo and pants that would not normally be worn in public as an article of personal clothing.
  - Some examples, but not an exhaustive list, of conductive to everyday wear are:
    - Jeans, no matter how, when or where they are purchased
    - Dress clothing such as sport coats, slacks, dresses and suits
    - Undergarments
    - Khaki pants or shorts
    - Collared shirts, tee shirts or other shirts without a City logo or other markings that clearly identify it as work apparel

Any clothing that does not meet the non-conductive criteria must be reported annually to the Finance Division. The market/purchase value will be entered on the employees' W-2s as wages.

A *City vehicle* that is taken home at night or after his/her regular work hours by an employee who is not a public safety employee is considered a taxable benefit. Emergency response vehicles must be clearly marked as City vehicles and the emergency service to which they are assigned. Employees who are assigned a take home vehicle will have \$3 per day added to their W-2 as wages. Each department will be responsible for tracking the number of days an employee takes a City vehicle home and will report that information annually to the Finance Division so it can be added to the Employee's W-2 as wages. City vehicles that are parked at a Fire Station or other City facility overnight or for quick response to on-call or standby work and are exchanged for the employees' personal vehicles during those work periods are not classified as taxable employee benefits.

*Gift cards, debit cards, gift certificates, employee recognition cash awards, movie tickets, etc.* are taxable benefits. Each department is responsible for tracking the amount of such gifts or awards, by employee, and reporting this information annually to the Finance Division. The reported amounts will be added to those employees' W-2s as wages.

*Tuition assistance or reimbursement* over \$5,250 in a single tax year is considered a taxable benefit to the employee. Each department is responsible for tracking the amount of assistance, by employee, and reporting the amount to the Finance Division. Assistance that exceeds the limit will be reported as wages on the employee's W-2.

The reporting period for these taxable fringe benefits will be December 1<sup>st</sup> through November 30<sup>th</sup>. All information should be sent electronically to Niki in Finance the first work day after November 30<sup>th</sup>.

Tracking forms/reports should contain first name, middle initial and last name to ensure wages are added to the correct person's W-2.

Abuse of this procedure may lead to disciplinary action up to and including termination.

  
Christina F. Volek  
City Administrator

4/28/10