

# Florida State University

## Taxable Fringe Benefits Guidance



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## Introduction

The following guidance is provided to assist Florida State University employees and departments in understanding the tax treatment of various fringe benefits, both cash and non-cash, as well as the reporting and tax withholding rules the university must follow as the employer.

The university cannot give personal tax advice. For specific concerns/questions relative to individual tax situations, employees should consult a personal tax accountant or advisor.

In general, a fringe benefit is any property or service that an employee (including certain independent contractors) receives in lieu of, or in addition to, regular compensation. Fringe benefits can take many forms. Examples include (but are not limited to) such items as athletic tickets, certain club memberships, spouse/companion travel, moving costs, housing, meals, awards, or prizes.

The guidance below will discuss the general rules, as well as many common situations encountered at the university. Fringe benefits are taxable, unless excluded by law. The following publication addresses the IRS approach to fringe benefits:

- [IRS Publication 15-B Employers Tax Guide to Fringe Benefits](#)

In general, a fringe benefit is any property or service that an employee (or employee's spouse or dependent) receives in lieu of, or in addition to, regular compensation. Unless a fringe benefit is specifically exempted from taxation by law or regulation, the tax treatment is generally based on whether or not the fringe benefit transaction itself can be considered a deductible business expense by the university or employee. A deductible business expense is an expense that is "ordinary" and "necessary". An ordinary expense is one that is common and accepted in your industry. A necessary expense is one that is helpful and appropriate for your trade or business. Implicit in this definition of a deductible business expense is that it is incurred for purposes of generating future income, increasing productivity, or decreasing costs. The final requirement for the deductibility of a business expense is the existence of adequate and timely documentation of its purpose.

For a fringe benefit to be taxable, it need not be furnished directly to the employee by the institution, as long as the benefit is provided in connection with the performance of services for the institution. A fringe benefit may be taxable to a person even though the person did not actually receive it.

De Minimis Fringe benefits are benefits in which the value is so small in relation to the frequency in which it is provided, that accounting for it is unreasonable or administratively impractical. Cash, cash equivalents, and gift cards do not qualify as de minimis no matter how small the amount.

Most taxable fringe benefits are subject to federal income tax withholding, as well as Social Security and Medicare taxes. The tax withholding on fringe benefits may be spread over multiple pay periods during the tax year. Benefits provided in the last two months of the year may have taxation carried into the following year.

Taxable fringe benefits for independent contractors are not subject to tax withholding by the university but may be reportable on IRS Form 1099-NEC.

### **De Minimis Fringe Exclusion**

A fringe benefit qualifies for exclusion as a de minimis (minimal) fringe benefit if its value is so small that, considering the frequency with which it is provided, accounting for it would be unreasonable or impractical. The university has determined transactions valued at \$100 or less, as de minimis fringe. The value includes all costs associated with obtaining the item including shipping, sales tax, etc.

EXAMPLES of items that may be excludable as de minimis, if they are infrequent, not routine, include:

- Group meals or employee picnics
- Longevity and retirement recognition plaques
- Flowers, fruit, books, or similar items provided under special circumstances

EXAMPLES of fringe benefits that are **NOT** excludable as de minimis:

- Season tickets to sporting or theatrical events
- Membership in a private country club or athletic facility
- Cash or cash equivalents (gift certificates, gift cards, etc.) do not qualify as de minimis, no matter how small the amount

### **Cash, Cash Equivalents, Prizes and Awards**

Cash; cash equivalents, including gift cards; prizes; awards; and unreimbursed, unaccounted for travel advances are considered taxable income to the employee regardless of the value. Gifts cards are not allowed to be purchased using university funds. Gift cards, awards, and prizes funded by an outside party are taxable in the same way as if provided directly by the employer. Cash and cash equivalents do not qualify as de minimis.

Cash and cash equivalent prize or award payments are processed through OMNI Human Resources using the Additional/One Time Pay form and are considered compensation to the employee.

Noncash gifts, prizes, and awards, including university provided parking spaces to an employee, are generally considered taxable income to the employee unless they qualify to be excluded as de minimis. This is determined regardless of the employee's use of the noncash gift, prize, or award.

Federal withholding, Social Security and Medicare taxes will be assessed on the taxable value of the benefit paid by the university. Departments should submit a completed and approved [Taxable Fringe Benefits](#) form along with supporting documentation to Payroll Services within 30 days of the taxable event. Payroll Services will notify the department of the pay period the benefits will be added to an employee's paycheck and the department should notify each employee. If no future wages are due to the employee, the benefit amount will be grossed up and added to the employee's taxable wages.

## Club Memberships

Unlike memberships in professional organizations, which are deductible business expenses, club memberships are typically dues paid directly or indirectly by the university or Direct Support Organization (DSO) on behalf of the employee for memberships in golf, dinner/social, airline, or athletic clubs. To exclude the value of these memberships from taxation, the club usage must conform to the criteria established by the IRS for deductible business expenses.

Memberships in gyms, fitness centers, and airline clubs are 100% W-2 income. Memberships in golf, dinner/social, and athletic clubs are generally wholly or partially W-2 income depending on the documented percentage of business to personal use of the facilities.

Club memberships are a non-cash taxable fringe benefit which is added to an employee's taxable wages. Federal withholding, Social Security and Medicare taxes are assessed and deducted from the employee's wages. For taxation purposes, Payroll Services uses a special accounting period (November 1<sup>st</sup> – October 31<sup>st</sup>) for club memberships.

By November 15<sup>th</sup> of each year, departments must submit a statement from the employee substantiating the business and personal portion of the club membership/dues to Payroll Services via the [Club Usage Log](#). For convenience, Payroll Services will accept the form on a quarterly basis. Below are the dues dates for submitting Club Usage Forms to Payroll Services:

- Quarterly
  - November 1st – January 31st. Due February 15th
  - February 1st – April 30th Due May 15th
  - May 1st – July 31st Due August 15th
  - August 1st – October 31st Due November 15th
- Annually
  - November 1st – October 31st Due November 15<sup>th</sup>

If there is personal usage of the clubs, departments will also need to submit a completed [Taxable Fringe Benefit Form](#) to provide a funding source to cover the employer portion of FICA taxes associated with the taxable amount of the membership value.

Supporting documentation of the information provided on the Club Usage Form should be retained within the department and is subject to audit by Human Resources, the Controller's Office, or any of the university's and IRS auditors.

Employees will be taxed on the usage as follows:

- The club membership is only used for documented business purposes, then none of the value is taxable to the employee.
- The club membership is only used for undocumented or personal purposes, the full value is taxable to the employee.
- The club membership is used for both documented business and undocumented or personal purposes, the value attributable to personal use is taxable to the employee.

Federal withholding, Social Security and Medicare taxes will be assessed on the taxable value of the benefit paid by the university. Departments should submit a completed and approved [Taxable Fringe Benefits](#) form along with supporting documentation to Payroll Services within 30 days of the taxable event. Payroll Services will notify the department of the pay period the benefits will be added to an employee's paycheck and the department should notify each employee. If no future wages are due to the employee, the benefit amount will be grossed up and added to the employee's taxable wages.

### **Tickets**

The value of season tickets/passes to sporting, theatrical, musical, and cultural events provided to employees is 100% W-2 income per IRS regulations. If tickets to individual events are offered for sale to the general public and remain unsold, these tickets can be given to employees just prior to the game without tax consequences. Lastly, any ticket/admission that is provided to an employee for a documented business purpose is not taxable.

In all of the above scenarios, the tickets are generally provided to the employee on an in-kind basis by the department/division sponsoring the event. The university and/or DSO can also directly purchase tickets for outside/away events.

The value of season tickets given to an employee for any event is a taxable fringe benefit to the employee. It is irrelevant if the tickets are provided to the employee before the season or are distributed to the employee before each event. In addition, any ticket given to an employee that was not available for sale to the general public is a taxable fringe benefit to the employee. Once the tickets have been distributed to an employee, departments must submit the [Taxable Fringe Benefits](#) form to Payroll Services. Federal withholding, Social Security and Medicare taxes will be assessed and deducted from the employee's wages. Payroll Services will notify the department of the pay period the benefits will be added to an employee's paycheck and the department should notify each employee.

For a terminated employee who received tickets, departments must immediately notify Payroll Services. The value of the tickets will be added as a one-time taxable amount to the employee's final paycheck. If no future wages are due to the employee, the ticket amount will be grossed up and added to the employee's taxable wages.

Depending on the area, ticket taxation may be handled in several ways:

- Athletic complimentary tickets provided to employees/non-employees are tracked by the Athletic Ticket Office and the information is submitted to Payroll Services at least bi-weekly for taxation.
- For other complimentary tickets, departments should submit a completed and approved [Taxable Fringe Benefit](#) form along with supporting documentation to Payroll Services within 30 days of occurrence.

## Clothing Expenses and Allowances

Clothing expenses and allowances are taxable fringe benefits, unless an exclusion applies as outlined below.

### Working Condition Fringe Exclusion

Working condition fringes are generally defined as any property or services provided by an employer that, if paid by the employee, would be deductible as an ordinary and necessary business expense. There are two criteria for the cost of clothing to be considered an ordinary and necessary business expense:

- The clothing is required or essential in the individual's employment, and
- The clothing is not suitable for general or personal wear

An employer's expense, direct or through reimbursement, in providing employee uniforms that meet the above criteria is considered a working-condition fringe benefit and is not includable in employee wages.

EXAMPLES of clothing items that may be classified as working condition fringes:

- Uniforms worn by police officers, health care professionals, delivery workers, letter carriers, transportation workers, chef's coats, and certain athletic uniforms
- Protective clothing such as safety glasses, hard-hats, work gloves, steel-toed work boots, and other clothing required by OSHA regulations
- Uniform/clothing that is rented and/or returned to the university and is maintained in a central area where the clothing is issued to the employee. The clothing must be kept and cleaned on university property and reissued on a regular basis. The employee may not assume personal possession of the clothing.

NOTE: For the university's purposes, clothing items of nominal value (\$100 or less) provided infrequently (no more than two times per year) may be excluded from taxation as a de minimis fringe benefit. If either the value or frequency limits are exceeded, the entire value of the benefit (not just the excess amount) is taxable.

EXAMPLES of clothing items that may be excluded as de minimis fringes:

- Clothing bearing the university or department name and employee's name, such as facilities services (maintenance) uniforms. These uniforms typically have a matching shirt and pant.
- T-shirts provided to employees to wear to promote a campus event

NOTE: An apparel allowance or the value of merchandise credit provided to certain employees that allows them to acquire apparel and goods directly from an outside vendor is a taxable fringe benefit.

Federal withholding, Social Security and Medicare taxes will be assessed on the taxable value of the benefit paid by the university. Departments should submit a completed and approved [Taxable Fringe Benefits](#) form along with supporting documentation to Payroll Services within 30 days of the taxable event. Payroll Services will notify the department of the pay period the benefits will be added to an employee's paycheck and the department should notify each employee. If no future wages are due to the employee, the benefit amount will be grossed up and added to the employee's taxable wages.

### **Lodging/Housing Allowance/Temporary Housing**

The value of employer-provided lodging will be excluded from the employee's gross income if all three of the following requirements are met:

- the lodging is furnished on the business premises of the employer;
- the lodging is provided for the convenience of the employer; **and**
- the employee is required to accept the lodging as a condition of employment

The failure to meet any one of these conditions will render this exclusion inapplicable, thereby causing the value of the housing to be included in the employee's income.

Housing allowances are not excludable from income. If an employee is given a choice between living in certain employer-provided housing and receiving a cash allowance, then the housing is not excludable from the employee's income even if the employee accepts the employer provided housing.

The phrase "on the business premises" has been construed as meaning: (1) living quarters that constitute an integral part of the business property; (2) a place where the employee performs some significant portion of their duties; and (3) premises on which the employer carries on a substantial segment of its business activities. The lodging should be "unified functionally with the educational goals and business of activities" of the university.

The "convenience of the employer" and "condition of employment" tests are essentially equivalent. Both tests require a direct connection between the lodging provided and the business interests of the employer that are served by the employee utilizing the lodging.

Further, the "condition of employment" test requires the employee to accept the housing in order to properly perform the duties of his/her employment or to be available for university business at all times. The employer's requirement or insistence that an employee accept the lodging is not sufficient to meet the condition of employment test. The lodging must be necessary for the employee to perform his/her job duties. The job duties must be clearly defined in the employee's position description or contract, in order to document that this test is met. In addition, the duties must be essential to the position, not merely incidental, in order to qualify.

### **Resident Advisors**

The value of lodging furnished to Resident Advisors (RAs) is excludable from gross income if the three requirements above are met.

If the RA is compensated in addition to receiving the lodging, then the compensation is included in taxable income. If the RA is given an option to choose between receiving an allowance or the lodging itself, then the amount is not excludable from wages.

## Valuation

For university-provided housing that does not meet the requirements above to be excluded from income, valuation will be determined as follows:

### Qualified Campus Lodging

This provision limits the amount of housing benefits that will be included in an employee's gross income to 5% of the housing's annual appraised value. To qualify for the 5% limitation, the housing must be "qualified campus lodging," defined as housing that is both:

- Located on, or in the proximity of, a campus of the educational institution, and
- Furnished to the employee for use as a residence

If the university-provided housing is not considered "qualified campus lodging", the fair market valuation will be used. For example, if the university is renting an off-campus apartment for the employee's use, the monthly rental value will be included in the employee's income as a taxable benefit.

EXAMPLES: Following are a few examples of housing that FSU departments have provided to employees. This is not an all-inclusive list but is intended to alert departments to potential situations that should be reported to Payroll Services.

- Housing and residential communities (dorms or apartments)
- Off campus apartments
- Rental/lease payments for an off-campus house
- Temporary housing allowance in special circumstances

The request to provide/pay for temporary housing must be approved in advance by the Chief Human Resources Officer using the [Request for Approval to Pay Temporary Housing](#) form.

Federal withholding, Social Security and Medicare taxes will be assessed on the taxable value of the benefit paid by the university. Departments should submit a completed and approved [Taxable Fringe Benefits](#) form along with supporting documentation to Payroll Services within 30 days of the taxable event. Payroll Services will notify the department of the pay period the benefits will be added to an employee's paycheck and the department should notify each employee. If no future wages are due to the employee, the benefit amount will be grossed up and added to the employee's taxable wages.

## Moving Expenses

The Tax Cuts and Jobs Act, signed into law in December 2017, stipulated that qualified moving expenses are no longer exempt from taxation and the total value will be classified as wages.

Moving expenses may be paid if authorized in advance by the Chief Human Resources Officer. The request to pay for moving expenses will be initiated by the department responsible for the budget that will be charged using the [Request for Approval to Pay Moving Expenses](#) form. House hunting, hotel, and other incidental expenses associated with relocation are not covered by the university.

Federal withholding, Social Security and Medicare taxes will be assessed on the taxable value of the benefit paid by the university. Departments should submit a completed and approved [Taxable Fringe Benefits](#) form along with supporting documentation to Payroll Services within 30 days of the taxable event. Payroll Services will notify the department of the pay period the benefits will be added to an employee’s paycheck and the department should notify each employee. If no future wages are due to the employee, the benefit amount will be grossed up and added to the employee’s taxable wages.

**Educational Benefits**

Educational benefits received by a university employee, their spouse, and/or child(ren) may be taxable to the employee. Please note, a benefit an employer provides on behalf of an employee is taxable to the employee even if someone other than the employee, such as a spouse or a child, receives the benefit. See chart below:

Florida State University – Educational Benefit Taxation Summary			
Course Type	Individual Classification	Sec. 117(d)	Sec. 127
		Qualified Tuition Reduction	Qualified Educational Assistance
Undergraduate Courses	Employee	Excludable from wages –no limit	
Undergraduate Courses	Employee’s Spouse, Employee’s Child	Excludable from wages –no limit	
Graduate Courses	Graduate Teaching Assistants or Graduate Research Assistants	Excludable from wages –no limit	
Graduate Courses	Employees not a Graduate Teaching or Graduate Research Assistant		Excludable from wages up to limit of \$5,250 – amounts over \$5,250 are taxable
Graduate Courses	Employee’s Spouse, Employee’s Child		Taxable to the employee

### Educational Assistance Programs (employee only)

The term “educational assistance” means the payment, by an employer, of expenses incurred by or on behalf of an employee for education of the employee (including, but not limited to tuition, fees and similar payments, books, supplies, and equipment). The maximum amount of graduate level educational assistance that an employee can receive tax-free during any calendar year is \$5,250. The excess over this amount is includable in compensation and subject to tax withholding, unless another exclusion applies, such as the working condition fringe benefit. For purposes of this \$5,250 limit, the employee must take into account all reimbursements received from employers for educational assistance, as well as the fair market value of all educational assistance paid or provided directly by the employer.

To qualify for the working condition fringe benefit exclusion, the educational benefit must:

- Be required by the employer or the law to keep the employee’s present salary, status, or job AND serve a bona fide business purpose for the employer; OR
- Maintain or improve skills needed for the employee’s current job

Even if one of the above criteria has been met, the benefits may not be excluded from taxable income, if such benefits are:

- Needed to meet the minimum educational requirements of the employee’s current job; OR
- Part of a program of study that will qualify the individual for a new trade or business, even if the individual has no plans to enter that trade or business

The Assistant Controller of Tax & Compliance works with Student Business Services to track educational benefits provided to FSU employees and their dependents. The Assistant Controller determines the taxable portion and provides the information to Payroll Services for taxation. Federal withholding, Social Security and Medicare taxes will be assessed on the taxable benefit. Taxes will be withheld over at least two pay periods. Payroll Services will notify the employee in advance of the taxation. If no future wages are due to the employee, the benefit amount will be grossed up and added to the employee’s taxable wages.

### Spouse/Companion Travel

As a general practice, travel expenses, including but not limited to transportation, lodging, meals, or registration fees, for spouses or companions are not allowable on university funds.

- The value of travel provided for an employee’s spouse, dependent, or other accompanying individual is generally taxable income to the employee.
- A possible exclusion exists as a working condition fringe benefit, if both of the following conditions are satisfied:
  - It can be adequately shown that the spouse’s, dependent’s, or other accompanying individual’s presence on the employee’s business trip has a bona fide business purpose, and
  - The employee/department substantiates the travel.

NOTE: IRS rulings and regulations have taken a narrow view of what qualifies as a bona fide business purpose. The purpose of the spouse's travel must be to serve the business interests of the university in a substantial way. The spouse's business activities conducted on the trip must be more than incidental; typing notes and attending luncheons and dinners have been held to be incidental.

Substantiation of the travel expenses must be done by the employee and require the following questions to be answered and documented:

- the amount of each expense,
- the date and time of each expense,
- the location of the expense,
- the business reason for the expense, and
- the business relationship of persons involved pertaining to the expense

If these requirements are not satisfied, the employee will be denied the benefit exclusion.

If the accompanying individual's travel does not qualify as business, the employee's taxable fringe benefit is the increase in cost over what the cost would have been if the employee traveled alone.

EXAMPLES of taxable items for a spouse, companion, dependent or other accompanying individual:

- Extra hotel costs (such as an extra room, meals charged to the room, any additional charges attributable to the accompanying individual)
- Commercial airline ticket or transportation for the accompanying individual
- Meals or per diem for the accompanying individual

Federal withholding, Social Security and Medicare taxes will be assessed on the taxable value of the benefit paid by the university. Departments should submit a completed and approved [Taxable Fringe Benefits](#) form along with supporting documentation to Payroll Services within 30 days of the taxable event. Payroll Services will notify the department of the pay period the benefits will be added to an employee's paycheck and the department should notify each employee. If no future wages are due to the employee, the benefit amount will be grossed up and added to the employee's taxable wages.

### **Chartered Flights**

A chartered aircraft is available to provide a means of allowing designated officials and employees to maximize productivity by limiting non-productive travel time. The value of chartered flights for employees and others who travel on behalf of the university is not considered a taxable event. The value of flights taken by an employee (or family member) for personal purposes must be included as taxable income.

The taxable value of chartered flights for both employees (and family members) and nonemployees should be reported on the [Contract Air Carrier Use Worksheet](#). The taxable value of chartered flights for an employee (and family members) will be processed by Payroll Services. Federal withholding, Social Security and Medicare taxes will be assessed on the value of the benefit.

## **Meals**

### Meals Provided for the Convenience of the Employer

The value of employer-provided meals shall be excludable from income if the meals are:

- furnished on the business premises of the employer, and
- furnished for the convenience of the employer

“On the business premises” generally means the place of employment.

Federal withholding, Social Security and Medicare taxes will be assessed on the taxable value of the benefit paid by the university. Departments should submit a completed and approved [Taxable Fringe Benefits](#) form along with supporting documentation to Payroll Services within 30 days of the taxable event. Payroll Services will notify the department of the pay period the benefits will be added to an employee’s paycheck and the department should notify each employee. If no future wages are due to the employee, the benefit amount will be grossed up and added to the employee’s taxable wages.

NOTE: The various examples listed are from the tax regulations and are provided for tax illustration purposes only. This does NOT imply that any or all of these items would be allowable using university funds. Please refer to Accounts Payable [Expenditure Guidelines](#) on allowable expenditures and funding sources.

Due to the many types and methods of providing fringe benefits, an important aspect of tax compliance is the tracking of fringes as they occur. For questions regarding the tax treatment of a particular type of fringe benefit, please contact Tax Administration at [ctl-tax@fsu.edu](mailto:ctl-tax@fsu.edu).