

STATE CONTROLLER'S OFFICE
PERSONNEL AND PAYROLL SERVICES DIVISION
P.O. BOX 942850
SACRAMENTO, CA 94250-5878

DATE: November 28, 2012 PAYROLL LETTER #12-018

TO: All Agencies/Campuses in the Uniform State Payroll System

FROM: Lisa Crowe, Chief
Personnel and Payroll Services Division (PPSD)

RE: SPECIAL ACCOUNTING PERIOD FOR NON-CASH FRINGE BENEFITS

The Internal Revenue Service (IRS) permits employers to adopt a Special Accounting Period (SAP) for reporting **non-cash**, taxable fringe benefit values. The SAP allows employers to report values received late in one calendar year as income in the subsequent tax year. The SAP minimizes late reporting, issuing corrected Forms W-2 and employees filing amended income tax returns.

For non-cash values received by employees in November 2012, PPSD must receive the Form STD. 676V by December 03, 2012 to ensure that the taxable gross and Social Security/Medicare amounts associated with the non-cash values are reported on 2012 Form W-2. If the Form STD. 676V is received after December 03, 2012 a corrected 2012 Form W-2 will be issued.

GENERAL INFORMATION

The letter provides reporting instructions for **NON-CASH**, taxable fringe benefits values that employees receive in December 2012 and a sample employee notification letter regarding Special Accounting Period (SAP) provisions. (Payroll Procedures Manual (PPM) Section N 175 and **Payroll Letter # 12-016 for 2012 reporting cutoff dates**).

SPECIAL REPORTING INSTRUCTIONS

Complete the **Form STD. 676V NON-USPS ADJUSTMENT REQUEST--VALUES (FRINGE BENEFITS/EMPLOYEE BUSINESS EXPENSE)** using PPM Section N-172.2 procedures. When completing column 9 (issue date), **ENTER 01/01/13 FOR ALL NON-CASH VALUES THAT EMPLOYEES RECEIVE DURING DECEMBER 2012**. These non-cash values will be reflected in the 2013 Form W-2.

NOTE: Federal and State income taxes are not withheld from the December warrant for all fringe benefits reported for November. See PPM Section Z Attachment N-2 for additional information on the fringe benefit processing under the SAP.

MANDATORY EMPLOYEE NOTIFICATION

The Internal Revenue Service **REQUIRES** employers (agencies/campuses) to:

1. notify affected employees of SAP reporting provisions;
2. instruct employees to use the same SAP (for value based benefits received December 2011 through November 2012) when filing personal income tax returns; and

3. notify employees of the **SAP NO SOONER THAN THE RECEIPT OF THE LAST PAYCHECK OF THE CALENDAR YEAR AND NO LATER THAN RELEASE OF THE EMPLOYEE'S FORM W-2.**

NOTE: Agencies/Campuses are encouraged to use the attached sample notification letter to fulfill the mandated reporting requirements.

REMINDER

The State's goal is that all employers (agencies/campuses) comply with federal and state employment tax regulations. This requires each agency/campus to report Fringe Benefits/Employee Business Expenses (FB/EBEs) on a timely, accurate and comprehensive basis. Timely reporting means when benefits are provided to employees. Accurate reporting entails proper completion of reporting documents. Comprehensive reporting means that your agency/campus reports all applicable FB/EBEs that are provided to employees, as defined in the PPM Section N - 120 through 175 and corresponding Payroll Letters. By complying with these requirements, your agency/campus prevents fines, penalties and assessments from being levied by tax authorities. Also, a reduction in business costs stemming from retroactivity and corrected Forms W-2.

CONTACTS

For assistance with payroll related issues, agencies and campuses can contact the Customer Contact Center at (916) 372-7200. For information regarding the Special Accounting Program (SAP) questions, please contact John Ochoa at jochoa@sco.ca.gov.

LC:JD: JO: TSS

ATTACHMENT

ATTACHMENT—SAMPLE LETTER TO EMPLOYEES IMPACTED BY SAP

January 7, 2013

Dear State Employee,

The Internal Revenue Service (IRS) permits employers to adopt a Special Accounting Period (SAP) for reporting non-cash, taxable fringe benefit values. The SAP allows employers to report values received late in one calendar year as income in the subsequent tax year. The SAP minimizes late reporting, issuing corrected Forms W-2 and employees filing amended income tax returns.

In January 1996, the State Controller's Office adopted a December through November SAP calendar. For Tax Year 2012, your 2012 Form W-2 will show non-cash values reported by your employing agency/campus and that you received in December 2011 through November 2012.

NON-CASH, TAXABLE FRINGE BENEFITS

Under the SAP Program, the following non-cash taxable values are affected:

Value of State Housing	Tickets
Lottery Sales Recognition	Out-Placement
Educational Assistance Program	Merit Award Program (non-cash)
Rideshare Incentive Award Program	Scholarships (Fee Waiver Program)
Dues and Memberships	Commuter Highway Vehicle –
Personal Use of State Vehicle	Vehicle Provided by Third Parties
Loan Assumption Program	Uniform Allowance
Car/Vanpool	Miscellaneous Incentive Program
Group-Term Life Insurance (Legislators)	Discount Travel/Transit Pass (non-cash)
Forgivable Loan/Doctoral Incentive Program	Overtime Meal Compensation (i.e., Meal Tickets)
Loan Forgiveness Program	Electronic Devices
Incentive Provided by Third Parties (non-cash)	

IRS REQUIREMENTS

IRS requires that employees use the same accounting period (December through November) when filling tax returns. Itemized deductions related to non-cash, taxable values received in December 2012 must be claimed in the following tax year (2013).

QUESTIONS

If you have any questions regarding the Special Accounting Program (SAP) program, please contact your Personnel/Accounting Office. Contact your tax advisor or the IRS regarding tax-filing questions.