

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

DATE: November 8, 2010

PAYROLL LETTER #10-017

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**

This letter provides reporting instructions for **NON-CASH**, taxable fringe benefits values that employees receive in December 2010 and a sample employee notification letter regarding Special Accounting Period (SAP) provisions.

#### **GENERAL INFORMATION**

Per Payroll Procedures Manual (PPM) Section N175, the SAP for non-cash taxable fringe benefit values that employees receive is December through November. Non-cash values received and reported to this office from December 2009 through the November 2010 cutoff date will be reflected on the 2010 Form W-2. **Please refer to Payroll Letter # 10-010 for 2010 reporting cutoff dates.**

The SAP requires special reporting for non-cash values that employees receive in December and mandatory notification to the affected employees. The following provides the reporting instructions for December 2010 and a sample employee notification letter.

#### **BENEFITS IMPACTED BY SAP**

The values of **ALL NON-CASH** taxable benefits received by employees in December 2010 and reported to the State Controller's Office are reported under the SAP. Refer to PPM Section N-175.1 for a complete benefit listing.

#### **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 01/01/11 FOR ALL NON-CASH VALUES THAT EMPLOYEES RECEIVE DURING DECEMBER 2010.** These non-cash values will be reflected in the 2011 Form W-2.

For non-cash values received by employees in November 2010, PPSD must receive the Form STD. 676V by December 3, 2010 to ensure that the taxable gross and social security/Medicare amounts associated with the non-cash values are reported on 2010 Form W-2. If the Form STD. 676V is received after December 3, 2010 a corrected 2010 Form W-2 will be issued.

**NOTE: Federal and State income taxes are not withheld from the December warrant for all fringe benefits reported in 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 in December) as the employer 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 is achieved.

## **CONTACTS**

If you require additional information, use the following contacts for assistance:

SAP Questions  
John Ochoa  
[jochoa@sco.ca.gov](mailto:jochoa@sco.ca.gov)  
(916) 322-8115  
Tax Support Section

FORM STD. 676V  
Payroll Operations  
(916) 322-8100  
W-2 Unit

JR: JO: TSS

Attachment

## ATTACHMENT—SAMPLE LETTER TO EMPLOYEES IMPACTED BY SAP

January 8, 2011

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 by employees in the latter part of a calendar year as income in the subsequent tax year. The SAP minimizes late reporting, issuing corrected Form W-2s 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 2010, your 2010 Form W-2 will show non-cash values reported by your employing agency/campus and that you received in December 2009-November 2010.

### **NON-CASH, TAXABLE FRINGE BENEFITS**

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

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 2010 must be claimed in the following tax year (2011).

### **QUESTIONS**

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