

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

DATE: November 23, 2020 PAYROLL LETTER #20-024

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

FROM: Jil Barraza, Chief  
Personnel and Payroll Services Division

**RE: SPECIAL ACCOUNTING PERIOD FOR NON-CASH FRINGE BENEFITS**

The Internal Revenue Service (IRS) allows employers to adopt a Special Accounting Period (SAP) for reporting **non-cash**, taxable fringe benefit values. SAP allows employers to report values received late in previous calendar year as income in the following tax year. The SAP helps to reduce late reporting and the issuance of corrected Forms W-2. This also results in employees filing fewer amended income tax returns.

For employees receiving non-cash values in November 2020, Personnel and Payroll Services Division (PPSD) must receive the Form STD. 676V by December 3, 2020. This will ensure the taxable gross and Social Security/Medicare amounts for non-cash values will be reported on the 2020 Form W-2. If received after December 3, 2020, a corrected W-2 may issue.

**GENERAL INFORMATION**

This letter provides reporting instructions for **non-cash**, taxable fringe benefit values that employees receive in December 2020. It also includes a sample of an employee notification letter to employees regarding SAP provisions. Please refer to Payroll Procedures Manual (PPM) Section N-175 and Payroll Letter # 20-023 for 2020 reporting cutoff dates.

**SPECIAL REPORTING INSTRUCTIONS**

Complete the **Form STD. 676V Non-USPS Adjustment Request – Values (Fringe Benefit/Employee Business Expense)** using PPM Section N-172.2 procedures. When completing column 9 (Issue Date), enter 01/01/21 for all non-cash values that employees receive during December 2020. The 2021 Form W-2 will reflect these non-cash values.

**NOTE: Fringe benefits reported for November will not have Federal and State income taxes withheld from the December warrant. 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 and campuses) to:

- Notify affected employees of SAP reporting provisions;
- Instruct employees to use the same SAP (for value based benefits received December 2019 through November 2020) when filing personal income tax returns; and

- 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 and campuses) comply with employment tax regulations for federal and state. This requires each agency or campus to report Fringe Benefits/Employee Business Expenses (FB/EBEs) in a timely, accurate, and comprehensive basis. Accurate reporting means proper completion of reporting documents. Comprehensive reporting means that your agency or campus reports all applicable FB/EBEs that are provided to employees, as defined in the PPM Section N-120 – 175 and corresponding Payroll Letters. By complying with these requirements, your agency or campus will prevent fines, penalties and assessments levied by tax authorities. Complying with these requirements may prevent costs stemming from retroactivity and corrected Forms W-2.

If you have any questions or need additional information, please use the following contact information:

### **Contact:**

- [Statewide Customer Contact Center](#) (916) 372-7200
- HR Suggestions Email (All HR Staff) [PPSDHRSuggestions@sco.ca.gov](mailto:PPSDHRSuggestions@sco.ca.gov)
- CS Escalation Email (HR Supervisors and Managers) [PPSDOps@sco.ca.gov](mailto:PPSDOps@sco.ca.gov)
- Cal Employee Connect Email [connecthelp@sco.ca.gov](mailto:connecthelp@sco.ca.gov)
- Cal Employee Connect Feedback Email [connectfeedback@sco.ca.gov](mailto:connectfeedback@sco.ca.gov)

### **SCO Key Initiatives:**

- [Cal Employee Connect Project](#)
- [CalATERS Replacement Project](#)
- [California State Payroll System Project](#)

JEB:JO:STSP

Attachment

## ATTACHMENT—SAMPLE LETTER TO EMPLOYEES IMPACTED BY SAP

January 4, 2021

Dear State Employee,

The Internal Revenue Service (IRS) allows 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 following tax year. The SAP reduces 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. Your 2020 Form W-2 will show non-cash values reported by your employing agency or campus that you received in December 2019 – November 2020.

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

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

Personal Use of State Aircraft	Loan Assumption Program
Incentives Provided by Third Parties	Loan Forgiveness Program
Lottery Sales Recognition	Long Term Travel: Meals and or Lodging
Merit Award Program (non-cash)	Long Term Travel: Airfare Long Term Travel
Miscellaneous Incentive Program (non-cash)	Long Term Travel: Car Rental Long Term Travel
Rideshare Incentive Award Program	Meals: Medical Officer of the Day
Personal Use of State Vehicle	Meals: Overtime Meal (Meal Tickets)
Vehicles Provided By Third Parties	Out-Placement
Educational Assistance	Professional/Non-Professional Dues
Electronic Devices	Scholarships: CSU Fee Waiver Program
Executive Housing Expense	Tickets
Reimbursement Plans	Discount Travel/Transit Pass (non-cash)
Employer Provided State Housing	Car/Vanpool
Group-Term Life Insurance (Legislators)	Commuter Highway Vehicle
Group-Term Life Insurance (Non-Legislators)	Employer Provided Parking
Forgivable Loan/Doctoral Incentive Program	Uniform Allowance

### **IRS REQUIREMENTS**

The IRS **requires** that employees use the same accounting period (December through November) when filing tax returns. Employees who itemized deductions related to non-cash, taxable values received in December 2020 would report these values in the following tax year (2021).

### **QUESTIONS**

If you have any questions regarding the Special Accounting Period (SAP), please contact your Human Resources or Accounting Office. **Contact your tax advisor or the IRS regarding tax-filing questions.**