

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

DATE: November 6, 2025

PAYROLL LETTER #25-018

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

FROM: Lisa Dean, Acting 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. Special Accounting Period allows employers to report values received late in the previous calendar year as income in the following tax year. The Special Accounting Period helps to reduce late reporting and the issuance of corrected Form W-2, Wage and Tax Statements (Form W-2). This also results in employees filing fewer amended income tax returns.

For employees receiving non-cash values in November 2025, the Personnel and Payroll Services Division (PPSD) must receive the [Form STD. 676V Non-USPS Adjustment Request - Values](#) by **December 5, 2025**. This will ensure the taxable gross and Social Security/Medicare amounts for non-cash values will be reported on the 2025 Form W-2. If received after December 5, a corrected Form W-2 may issue.

GENERAL INFORMATION

This letter provides reporting instructions for non-cash, taxable fringe benefit values that employees receive in December 2025. It also includes a sample of an employee notification letter for employees regarding SAP provisions. Please refer to [Payroll Procedures Manual \(PPM\)](#) Section N-175 and [Payroll Letter #25-013](#) for 2025 reporting cut-off 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 01/01/26 for all non-cash values that employees receive during December 2025. The 2026 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 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 2024 through November 2025) 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 federal and state employment tax regulations. This requires each agency or campus to report Fringe Benefits/Employee Business Expenses (FB/EBEs) on 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 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.

Please direct questions regarding this Payroll Letter to the Statewide Tax Support Program via email at PPSDSTSP@sco.ca.gov.

PPSD and CSU Contact Information:

- [PPSD Contacts and Additional Information](#)
- [Campus Information Retrieval System \(CIRS\) | Contact Email](#)

Web Resources:

- [For HR Personnel](#)
- [For State Employees](#)

LD:JO:STSP

ATTACHMENT—SAMPLE LETTER TO EMPLOYEES IMPACTED BY SAP

January 4, 2026

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 Special Accounting Period allows employers to report values received late in one calendar year as income in the following tax year. The Special Accounting Period 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 2025 Form W-2 will show non-cash values reported by your employing agency or campus that you received in December 2024 - November 2025.

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 2025 would report these values in the following tax year (2026).

QUESTIONS

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