Section N

Non Uniform State Payroll System and Fringe Benefits/Employees Business Expenses (Non USPS / FB/EBEs)

Payroll Procedures Manual

Rev. 05/2018

State Controller's Office

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Section N 100: INTRODUCTION (Revised 06/00)

Federal and State tax laws require that employers report income and related tax amounts for payments other than regular wages including Salary Advances, Fringe Benefits and Employee Business Expense reimbursements.

Payments are generally issued via the claims process rather than the Uniform State Payroll System (USPS). Therefore, payments are reported via a unique reporting process called the Non-Uniform State Payroll System (Non-USPS).

Some Fringe Benefits/Employee Business Expenses should be issued via the Payroll Input System (USPS). Refer to Section G150 for instructions.

Section N 103: SALARY ADVANCES (Revised 01/08)

When payroll warrants are not issued by SCO in a timely fashion, agencies/campuses may issue salary advances from their revolving fund. Salary advances must be treated as taxable wages. The gross amount, federal tax, state tax, Social Security, Medicare and State Disability Insurance must be reported timely to SCO to ensure inclusion on Form W-2.

Section N 104: SALARY ADVANCES PAID/OFFSET REPORT, FORM STD. 422 (Revised 01/08)

Salary Advances Paid/Offset Report, form STD. 422, (available at Department of General Services web site: http://www.documents.dgs.ca.gov/dgs/fmc/pdf/std422.pdf), is the only acceptable form for reporting salary advances. Form STD. 422 is a multi-use document since it is partially completed to report the initial advance and then is resubmitted with the balance of the line entry to offset the salary advance information upon receiving the SCO salary payment.

NOTE: Agencies/campuses may submit one or more forms STD. 422 to report salary advances. Only submit one check for the entire package (up to 10 pages) when reporting salary advances paid. For offset reporting, Items 24B and 26 must be completed.

Section N 105: REPORTING INSTRUCTIONS (Revised 06/00)

The cutoff date for submitting form STD. 422 is the 10th of each month. When salary advances are issued and the related payroll warrant has not been received within 30 calendar days from payday, the "initial" form STD. 422 must be sent to Division of Disbursements and Support; e.g., salary advance for February pay period must be reported by April 10 if related SCO warrant has not been issued.

EXCEPTION: When salary advances are issued late in the calendar year and it is known the related payroll warrant will not be issued prior to December 31, report salary advances by December 10 to ensure the accuracy of the Wage and Tax Statement, Form W-2.

Do not report salary advances for IDL payments. These are considered a staff benefit and are not included on Forms W-2. Likewise, salary advances for current pay period earnings issued prior to payday are considered loans and must not be reported.

EXCEPTION: If the related SCO warrant (this does not include IDL pay) is not received within 30 calendar days from payday, the loan becomes a salary advance and must be reported to SCO (e.g., loan issued March 23 for March pay period, no March warrant received by May 1, report the loan as a salary advance by May 10).

Section N 106: SCO PROCEDURE (Revised 01/08)

The Personnel/Payroll Services Division (PPSD) will verify the authorized signature on the form STD. 422. If an unauthorized signature is identified, and/or an incorrect amount is entered on the revolving fund check, the form STD. 422 and the revolving fund check will be returned for correction. After verification of the revolving fund check amount, the check is deposited into the Payroll Revolving Fund and the form STD. 422 is routed to Payroll Operations for processing.

Form STD. 422 "offset" reports require signature verification prior to processing. Forms STD. 422 with unauthorized signatures will be returned to the agency/campus for correction. After the signatures are verified, the forms are processed. The Division of Disbursements and Support will issue a direct disbursement warrant, payable to the agency/campus, for the amount shown in Item 26.

Section N 107: YEAR-END PROCESSING (Revised 12/99)

Forms STD. 422 must be submitted throughout the calendar year. However, to ensure the accurate and timely release of the Form W-2, agencies/campuses should make a special effort to submit by December 10th all remaining forms STD. 422 "initial" and "offset" reports. This is the final date that SCO can receive form STD. 422 for processing and ensure that correct wage totals are reflected on the Form W-2. Forms STD. 422 received after this date may require issuance of a Form W-2C (Statement of Corrected Income and Tax Amounts).

<u>Salary advances issued for the last half or full December pay period must be dated January 1 or later</u> or the prior year's W-2 may reflect wage earnings for 13 months.

EXCEPTION: When a separation PAR/PPT is checked "immediate pay" in Item 615, all pay is to be issued in the current tax Year.

A form STD. 422 "initial" report received after the close of the tax year will require a Form W-2C.

A form STD. 422 "offset" report received after the close of the tax year will require a Form W-2C if the related SCO warrant was issued prior to the close of the tax year.

A Social Security and Medicare refund will be required if:

- The related SCO warrant was issued in the following tax year and there was a Social Security and Medicare contribution rate increase; or
- Social Security deductions were made from related SCO warrant issued in the following tax year, and maximum Social Security contributions were made within the tax year the salary advance was reported.

Section N 108: OUTSTANDING SALARY ADVANCE REPORT (Revised 12/99)

Following each Non-USPS cycle, SCO produces a computer-generated report identifying salary advances reported on initial forms STD. 422 which have not been cleared by form STD. 422 offsets.

Before mailing these reports, Payroll Operations will line out entries for offset forms STD. 422 or cancellation forms STD. 422 received and not yet processed.

Agencies/campuses must research the uncleared items and submit a form STD. 422 offset for each entry cleared by a related SCO warrant or a cancellation form STD. 422 if no related SCO warrant is to be issued.

It is imperative that every effort is made to clear the entries from this report to ensure the accurate reporting of wages on Forms W-2.

Submit a photocopy of the original form STD. 422 with the related SCO warrant information completed or a cancellation (with original signatures) to PPSD's W-2 Unit for each erroneous entry remaining on the report.

Call Payroll Operations, W-2 Unit at (916) 322-8100, if you have any questions concerning entries on this report.

Section N 109: “INITIAL” FORM STD. 422 COMPLETION (Revised 01/08)

Submit separate forms STD. 422 for each tax year (issue year).
For "initial" reports of salary advance issued, items must be completed as follows:

Item	
1	Action (check box A ‘Initial Salary Advance’) /Page Numbers Employee CBID
2	Employee CBID
3A	Tax year
3B	Agency/Campus Name

4	Social Security Number
5	Employee's first/middle initial and surname
6	Position number for which the salary advance was issued
7	Pay period - type/month/year for which the salary advance was issued Type Ø = Monthly - place a slash mark through the numeric Ø 1 = Semimonthly first half 2 = Semimonthly second half A-E = See Section B 007 for biweekly employees
8	Payment type - see Section B 002. NOTE: Do not report payment type 6, K, N or P.
9	Enter appropriate adjustment code as follows: Type 0 = Original not adjustment 1 = Adjustment of time worked 2 = Adjustment of salary rate 3 = Adjustment of both time worked and salary rate 4 = Adjustment of time base fraction 5 = Adjustment of both time base fraction and salary rate 6 = Adjustment to gross
10	State code – enter appropriate state code as follows: CA = California NY = New York IL = Illinois Blank = Other
11	Enter TAXABLE gross of salary advance. See Section H 102. This taxable gross amount includes Flexible benefit, consolidated benefit, cash option, less Savings Plus, Tax Sheltered Annuity, pre-tax/flex deductions, Retirement/Employer Paid Member Contribution (EPMC) amounts and payroll deduction account receivable gross amounts. **For example**:

Employee's gross pay		$4500.00
Flex Cash (CSU) Flex Cash Option (CS)		+ 128.00
Adjusted Gross pay		4628.00
Payroll deduction account receivable	$35.00	
Retirement/EPMC	195.00	
Flex Dependent Care reimbursement Account	415.00	
Flex Dental	21.18	
Flex Medical reimbursement account	50.00	
Savings Plus	350.00	- 1066.18
TAXABLE GROSS		$ 3561.82

12	Federal tax withheld - see Section H 100
13	State tax withheld - see Section H 100

14	Enter State Disability Insurance (SDI) subject gross amount of salary advance for Employees who are subject to SDI and the maximum contributions have not been Withheld. See Section E801.
15	Enter State Disability Insurance withheld per Section E 801.
16	Enter Social Security subject gross amount of salary advance which includes Flexible benefit, consolidated benefit, cash option, less pre-tax/flex deductions for employees who are subject to Social Security and the maximum contributions have not been withheld. See Section H 250. **NOTE: Do not confuse this with taxable gross (do not reduce by Savings Plus, Tax Sheltered Annuity, Retirement/Employer Paid Member Contribution (EPMC), and payroll deduction account receivable gross amounts).** **For example**: Employee's gross pay $4500.00 Flex Cash (CSU) Flex Cash Option (CS) + 128.00 Adjusted Gross pay 4628.00 Flex Dependent Care reimbursement Account 415.00 Flex Dental 21.18 Flex Medical reimbursement account 50.00 - 486.18 SOCIAL SECURITY GROSS $4141.82
17	Social Security Withheld - See Section H 250 for employees subject to Social Security and the maximum Social Security contributions have not been withheld. This item must be completed if Item 16 is completed.
18	Enter Medicare subject gross amount of salary advance which includes Flexible benefit/consolidated benefit cash option, less per-tax/flex deductions for employees who are subject to Medicare. See Section H 270. NOTE: Do not confuse this with taxable gross (do not reduce by Savings Plus, Tax Sheltered Annuity, Retirement/Employer Paid Member Contribution (EPMC), and payroll deduction account receivable gross amounts). **For example**: Employee's gross pay $4500.00 Flex Cash (CSU) Flex Cash Option (CS) + 128.00 Adjusted Gross pay 4628.00 Flex Dependent Care reimbursement Account 415.00 Flex Dental 21.18 Flex Medical reimbursement account 50.00 - 486.18 MEDICARE GROSS $4141.82
19	Medicare withheld - see Section H 270 for employees subject to Medicare. This item must be completed if Item 18 is completed.
20	State share of Social Security - See Section H 250 for Social Security. This item must be completed if Items 12 and 13 are completed.
21	State share of Medicare - see Section H 270 for Medicare. This item must be completed if Items 18 and 19 are completed.

22	Issue date - month, day and year salary advance was issued. Do not combine different issue years for line entries on the same form STD. 422.
23	Leave blank for "Initial" reporting.
24A	Initial/Paid Totals - enter, 12, 13, 14, 15, 16, 17,18, 19, 20, and 21.
24B	Leave blank for "Initial" reporting.
25	Total Amount Payable to State Controller's Office - total items 12, 13, 15, 17, 19, 20, and 21 of line 24A. Submit one check for single or multiple page reporting. Complete only for "Initial" salary advances.
26	Leave blank for "Initial" reporting.
27	Authorized signature/date/telephone number - name must be printed then signed with original signature; date must be current. If the offset is a photocopy with the signature and date previously completed, countersign and re-date the copy.

Section N 110: "OFFSET" FORM STD. 422 COMPLETION (Revised 01/08)

Upon receipt of the related SCO warrant, complete form STD. 422 and send it to PPSD's W-2 Unit. For offset reports, a photocopy of the initial report must be completed and submitted with an ORIGINAL SIGNATURE AND DATE.

Form STD. 422 must be completed as follows:

Item	
1 - 22	See Section N 109.
23	Clearance report information - enter the related SCO warrant number and month, day, and year of issuance. The warrant shown must be for the pay period of the salary advance. If more than one warrant clears an advance, complete all warrant numbers.
24B	Offset Totals line - totals must reflect only the totals from the entries being cleared. Enter items 12, 13, 14, 15, 16, 17, 18 19, 20 and 21.
26	Reimbursement amount - total Items 12, 13, 15, 17, 19, 20 and 21 for each page from Item 24B. Enter the amount that SCO will remit to reimburse the agency/campus revolving fund. Complete only for salary advance offsets.
27	Authorized signature/date/telephone number - name must be printed then signed with original signature; date must be current. If the offset is a carbon or photocopy with the signature and date previously completed, countersign and re-date the copy.

Section N 111: CANCELLATION (Revised 01/08)

For salary advances reported on initial form STD. 422 and no related SCO warrant is to be issued, a cancellation form STD. 422 must be sent to PPSD's W-2 Unit. A carbon or photocopy of the initial report may be completed and submitted with an ORIGINAL SIGNATURE AND DATE.

Due to unusual circumstances, form STD. 422 may require cancellation after the offset form STD. 422 was submitted. Both the initial and offset forms must be canceled.

Form STD. 422 must be completed as follows:

Item	
1 - 22	See Section N 109
1 - 22	Action (Check box D "Cancel Salary Advance") NOTE: For cancellation of OFFSET form STD. 422, Item 1 check box D (Cancel Salary Advance).
24B	See Section N 110
26	Complete for cancellation of initial form STD. 422. For OFFSET form STD. 422, leave blank.
27	See Section N 109

Section N 120: FRINGE BENEFITS/EMPLOYEE BUSINESS EXPENSES (Revised 01/06)

Fringe Benefits (FB) and Employee Business Expenses (EBE) generally represent taxable and reportable income. Unless FB/EBEs are fully or partially excluded by the Internal Revenue Code (IRC) or by law defined as tax deferred (employer contributions to employee retirement plans), they are taxable upon constructive receipt by the employee. Although the rules and regulations affecting the taxability/reportability of FB/EBEs are complex, the employer authorizing/providing FB/EBEs is responsible for insuring that all requirements, including timely, accurate and comprehensive reporting are followed.

FBs

Definition: FBs or perks are defined as "something additional to regular pay, which an employee receives from an employer."

Types: Cash, cash equivalents, goods, property and services. FBs provide immediate economic and financial benefit to employees.

Taxability: Unless a FB is specifically fully or partially exempted under the tax code or defined as tax deferred by regulation, the FB payment/value is taxable, reportable income.

Taxes: Taxable FBs are subject to: Federal Income Tax (FIT) and Social Security/Medicare (SS/MED) taxes; and are usually subject to State Income Tax (SIT) and/or State Disability Insurance (SDI) as most State tax laws mirror Federal law.

Tax Payment/Reporting: Taxes are due, payable and income reportable when an employee **constructively receives** the FB. For example, if you paid an employee $20 for commute mileage (personal vs. Business expense) incurred on a weekend that the employee worked overtime, taxes must be withheld and reported. See IRS Publication 15-B, Employer's Guide to Fringe Benefits.

All taxable payments issued employees in a calendar year must be reflected on that year's Form W-2. For taxable benefits wherein a value was received by the employee (e.g., employer provided cars), the value is generally reflected in the same tax year that the value was received. However, some values may be reported in a uniquely defined tax year if the employer adopts a Special Accounting Period (SAP). Unlike payments issued in a tax year, values may not be fully known until a tax year closes. **A SAP enables specific benefit values to be reported via an employer defined tax year. The State Controller's Office, as the State's withholding and reporting agent, adopted a December through November SAP (vs. January through December) for SAP available benefits**.

NOTE: Taxable FBs for employees are only reported on Form W-2; they are never reported on Form 1099. Taxable FBs for Independent Contractors of $600 or more paid in a calendar year must be reported on Form 1099.

EBEs

Definition: EBEs represent costs for conducting business and when paid by the employee vs. the employer, can be claimed as a legitimate business deduction when the employee files a tax return.

Types: Cash, goods, property, training and services.

Taxability: Employer provided advances or reimbursements of EBEs (direct payment by the employer on behalf of an employee to a vendor) may/may not represent taxable, reportable income.

To be considered an "accountable plan," the employer must adopt an expense reimbursement arrangement that must satisfy three IRS conditions:

- **Business Connection** - Payments made under the plan must be for work related expenses for which the employee would be entitled to claim a tax deduction if not reimbursed by the employer; and
- **Substantiation** - Employees must substantiate, within specific time frames (as determined by the system-wide employer and consistent with IRS rules), the amount (receipts), time, place and business purpose of the allowance or expense payment. In lieu of substantiation for selected expenses, an employer can use IRS approved "deemed substantiation" methods. Deemed substantiation methods apply to only IRS selected (not all) EBEs; and

- **Return of excess payments** - Employees are required to return any excess amounts (exceeding substantiated expenses) to the employer within 120 days after the expense is paid or incurred. Employees failing to return excess amounts timely, or at all, invoke an immediate tax liability for those amounts. Employers must report these taxable amounts to SCO no later than the first pay period following the 120 day requirement. Failure to report these taxable excess amounts can result in fines, penalties, etc. including IRS prohibiting the employer from providing this EBE to employees **[IRS Reg 1.62-2 (g)(2)(I-ii)]**. If an employee substantiates and returns excess advances after employer has treated amounts as wages, the employer is not required to return any withholding or treat amounts as non-taxable **[IRS Reg 1.62-2 (h)(2)]**.
- The IRS also requires, as an administrative requirement, that EBE reimbursements or allowances be paid separately from regular wages, or if combined with regular wage payments, separately identified as a reimbursement for expenses. The EBE must satisfy all regulatory criteria tied to that expense. Many expenses, such as uniforms, have unique criteria that determine if all/or a portion of the uniform qualifies as a legitimate business expense. Other expenses, such as relocation, specifically detail what costs are/are not taxable. **When an employer applies accountable plan provisions, if all regulatory criteria are not satisfied, the reimbursement represents taxable income**.

Taxes: Taxable EBE reimbursements are subject to: FIT, SS/MED, SDI and SIT. Note: most State tax laws mirror Federal law.

Tax Payment/Reporting: Taxes are due, payable and income reportable when an employee constructively receives the benefit. For example, an employer pays all of an employee's relocation expenses incurred in early July on July 20th. Taxes are due and reportable for those relocation expenses not exempt by law at that time. The employer must report taxable amounts under this example to SCO no later than August 10th.

Taxable EBE reimbursements received by an employee in a calendar year must be reflected on that year's Form W-2. There is no SAP for EBE payments.

NOTE: **Taxable EBE reimbursements for employees are only reported on Forms W-2 or W-2c**; they are never reported on Form 1099. **Taxable EBE reimbursements received by Independent Contractors in a calendar year must be reported on Form 1099**; they are never reported on a Form W-2.

Summary: Rules and regulations affecting the tax treatment of FB and EBEs are complex. The taxability of any benefit may have multiple rules depending upon how the benefit/expense is provided. To illustrate, the taxability and regulations for mileage are different when the travel is for business, personal commute or a relocation expense. Employers must know what FBs and EBEs are provided/paid and apply the respective tax and reporting rules.

The State, via its system wide and local employers, offers many FB/EBEs to employees. The following table lists benefits identified to this office by employers determined to be reportable/taxable income and the PPM section providing reporting instructions. **You are also encouraged to access SCO Payroll Letters via the Internet at http://www.sco.ca.gov/ppsd_sco_letters.html**. These letters provide interim procedures that

may not yet be reflected in the PPM. Also, please refer to the **IRS web site at www.irs.gov** to review/order FB/EBE publications and related requirements. IRS publications may also be ordered by calling 1-800-829-3676.

Section N 125: AIRCRAFT (Revised 09/14)

Section N 125.1: PERSONAL USE OF STATE AIRCRAFT (Revised 09/14)

Personal use of an employer-provided aircraft is a taxable fringe benefit. The value of all Personal use (flights) is determined via two methods; general and/or special valuation for non-commercial flights. Refer to **IRS Reg. 1.61-21 (g), Temp Regs 1.61-2T(g) and Rev. Rule. 88-71** for additional information.

Section N 125.2: AIRCRAFT REIMBURSEMENTS/BUSINESS USE OF EMPLOYEE-OWNED AIRCRAFT (Revised 04/16)

In general, the total employer paid reimbursement amount for business use of an employee-owned aircraft (similar to employee-owned vehicles) is excludable from the employee's income if it is made under an accountable plan.

Private Aircraft Mileage – When an employee is authorized by his/her department, reimbursement of the use of the employee's privately owned aircraft on State business shall be made at the rate of 50 cents per status mile. Pilot qualifications and insurance requirements will remain in accordance with the Department of Human resources rule 599.628.1 and the State Office of Risk and Insurance Management.

Secondly, if several conditions are met, the employee receiving the allowance would only need to prove the dates, place, and business purpose of the aircraft use to satisfy the requirements of accountable plan rules.

REFERENCES (Revised 09/14)

IR Code	62
IRS Regulations	1.62-21(g)
IRS Publication	463
IRS Publication	525
Code of Federal Regulations (CFR)	Sections 1.62-2(c)(4); 1.62-2(d)(e) and (f).
IRS Publication	5137, Fringe Benefit Guide, FSLG, January 2014

Section N 125.2.1: APPLICABLE TAXES (Revised 09/14)

NOTE: The Following apply only to taxable AR reimbursements (amounts exceeding the IRS federal rate).

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 125.2.2: GENERAL INFORMATION (Revised 09/14)

Employer reimbursements for business use of an employee-owned aircraft typically are EBEs governed by IRS Accountable/Non-accountable Plan Rules. As explained in IRS Publication 463 (Cat. No. 1108IL) dated February 20, 2013, a car mileage allowance paid under an accountable plan that is less than or equal to the federal rate is not taxable and thus should not be included in the employee's gross income. However, any amount that exceeds the federal rate is considered taxable and should be included in the employee's gross income.

IRS publication 463 states that any employee, in regard to a car, can generally use the mileage allowance as proof to the amount of his or her expenses. An allowance satisfies the adequate accounting requirements of an accountable plan for the amount of the expenses only if all of the following conditions apply:

1. The employer reasonably limits payments of the employee's expenses to those that are ordinary and necessary in the conduct of the business.
2. The allowance is not more than the federal rate.
3. The employee proves the time (dates), place, and business purpose of his or her expenses to the employer within a reasonable period of time.
4. The employee is not related to the employer.

Because both car allowances and aircraft allowances are included in "mileage allowances" as discussed in 26 CFR 1.62-2, it is logical to assume that aircraft mileage allowances would be treated in the same manner as car mileage allowances as mentioned above. As a result, any aircraft mileage allowance that is paid at or rate less than or equal to the IRS's federal rate is not taxable and should not be included in the employee's gross income.

REPORTING INSTRUCTIONS N 125.2.3 (Revised 01/06)

Agencies/campuses should use form **STD. 671**, Miscellaneous Payroll/Leave Action, or **Form 672**, Time and Attendance, to report aircraft reimbursement payments via the PIP System. Refer to PPM Section G 150 for completion instructions.

Aircraft reimbursements may also be reported to SCO via form STD. 676P per PPM Section N 172.2. When using form STD. 676P, identify these reimbursements as:

ITEM CODE	ITEM DESCRIPTION
AR	**AIRCRAFT – REIMBURSEMENT PLANS**

For agencies using the California Automated Travel Expense Reimbursement System (CalATERS), employees may request Aircraft Reimbursements/Business Use of Employee-Owned (Mileage) via the CalATERS. For taxable reimbursements paid through the CalATERS, no action is required by agencies as the CalATERS directly interfaces reportable/taxable income with the Non-USPS. For more information regarding the CalATERS, please visit http://www.sco.ca.gov/calaters.html.

Section N 125.2.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting Aircraft reimbursements.

Section N 125.2.5: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 127: AWARDS/BONUSES/INCENTIVES (Revised 03/18)

Cash, cash equivalent and non-cash gifts/prizes/discounts provided as Awards/Bonuses/Incentives are reportable/taxable income.

REFERENCES

IRS Code	61, 74(a)(c), 102(c), 274(j)
IRS Regulations	1.274-3(d), 1.3401(a)-1(a)2, 1.3402(j) -1
DPA Merit Award Program Regulations	599.664(i)
Revenue & Taxation Code	17149
Public Law 115-97	2017 Federal Tax Cuts and Jobs Act (TCJA) Section 13310
IRS Publications	525 - Taxable Non Taxable Income, 535 - Business Expenses 15-B – Employer's Tax Guide to Fringe Benefits

Section N 127.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES****	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

****EXCEPTION**: Incentives provided under Rideshare arrangements which are intended to reduce single occupant vehicles are excluded from California Income Tax withholding. Incentives include CSU's Rideshare Program and reimbursements for miscellaneous bicycle storage fees, bicycle parking, and commute rider shower/locker charges.

Section N 127.1: GENERAL INFORMATION (Revised 03/18)

Cash (including expenses reimbursed under the Continuing Medical Education Program) and cash equivalents are always taxable. Cash equivalents represent items that are readily convertible to cash such as Savings Bonds, gift certificates, stocks, etc. Non cash gifts/prizes/discounts other than those having nominal value are taxable at the **Fair Market Value**. Neither Federal nor State regulations set a defined dollar amount for "nominal value". The regulations indicate that when an employer distributes food or other merchandise such as a turkey or ham at the holidays to promote employee goodwill, this food can be considered nominal. Other items such as inexpensive coffee mugs, tee shirts, etc. may qualify.

Employee Achievement Awards may qualify as nontaxable when all Internal Revenue Code criteria are met. **The tax exemption is limited to specific Length of Service and Safety Awards**. Both awards must meet the General Rules as well as Special requirements assigned each type of award.

GENERAL RULES FOR EMPLOYEE ACHIEVEMENT AWARDS:

- Award must recognize length of service or safety achievement.
- Award cannot be disguised as a wage.
- Award must be presented in a meaningful presentation.
- Award must be an item of tangible personal property. It cannot be cash, cash equivalent, vacations, meals, lodging, theater or sports tickets.

Note: Section 13310 of the new law, Tax Cuts and Jobs Act, defines tangible personal property in the context of employee achievement awards to exclude cash, cash equivalents, gift coupons, or certificates as well as vacations, meals, lodging, or tickets to theater or sporting events, stocks, bonds, other securities and other similar items.

SPECIAL REQUIREMENTS -- LENGTH OF SERVICE AWARD (IR CODE 274 (j)(4)(B))

- Award cannot be given to an employee within first five years of employment; or
- Award cannot be given to the same employee more often than every five years (exception permitted is a traditional retirement gift).

SPECIAL REQUIREMENTS-SAFETY AWARD (IRS CODE 274(j)(4)(c))

- Award cannot be given to a manager, administrator, clerical employee or other professional employee; or
- Award cannot be given tax-free to more than 10% of the "eligible employees" excluding managers, administrators, clerical or other professional employees.
- Employee must work full time with at least one year of service.

VALUE LIMITATIONS FOR LENGTH OF SERVICE AND SAFETY AWARDS:

There are annual dollar limits to the amount an employer can award tax-free. If awards exceed limits, the fair market value or cost to the employer, whichever is greater, becomes a taxable wage. The dollar limitation depends on whether the award is made under a non-qualified or qualified plan.

A **qualified employee achievement award plan** requires: an established written plan or program; the plan cannot discriminate in favor of highly paid employees either in the plan or in operation; and the average cost of all employee achievement awards given by the employer annually cannot exceed $400 value. Tax-free awards made under this plan are limited to $1,600 value per employee annually.

EXAMPLE: An agency/campus gives six qualified employee achievement awards with a cost of $1,800. The average cost of the award is $300. Since the average cost of all awards does not exceed $400, the awards qualify under the tax-free $1,600 limit to each employee.

A **non-qualified employee achievement award plan** is any plan failing to meet the three qualified plan requirements. Tax-free awards made under this plan are limited to $400 value per employee annually.

NOTE: For combined Qualified and Non-qualified Award plans, the tax-free limit cannot exceed $1,600.00 value per employee annually.

EXAMPLE: An employee receives three employee achievement awards during the year.

Watch under non-qualified plan		$ 250.00
TV under qualified plan		$1,000.00
Stereo under qualified plan		$ 500.00
	TOTAL	$1,750.00
Less Annual Limitation		$1,600.00
Taxable value of awards		$ 150.00

QUALIFIED EMPLOYEE DISCOUNTS

Employer-provided discounts to employees are reportable/taxable incentives **unless** they are **"qualified employee discounts"**. Qualified employee discounts are any employee discount on the selling price of property or services when provided on a nondiscriminatory basis to each

member of a group of employees. The discount is the difference between the price of the property or services that are provided to employees and non-employees by the employer.

A tax-free discount **cannot exceed** the gross profit percentage on property or 20% on services per IRC 132 (c); amounts exceeding the discount exemption are reportable/taxable. The tax exemption for qualifying employee discounts **is limited** to only properties and services sold in the ordinary course of business in the employer's line of business wherein the employee works. Properties and services may not include real or personal property held for investment.

Section N 127.2: REPORTING INSTRUCTIONS (Revised 07/07)

Agencies/campuses should use form **STD. 671**, Miscellaneous Payroll/Leave Action, or **Form 672**, Time and Attendance, to report **Award/Bonus/Incentive payments** via the PIP System. Refer to PPM Section G 150 for completion instructions.

These payments may also be reported to SCO via form **STD. 676P** per PPM Section N 172.2. When using form STD. 676P, identify the specific payment as:

ITEM CODE	ITEM DESCRIPTON
AE	**Awards/Bonuses/Incentives - Employee Recognition and Morale Award** (CS and CSU employees)
AH	**Awards/Bonuses/Incentives - Health and Safety Incentive Award** (CS and CSU employees)
AS	**Awards/Bonuses/Incentives-Safety Incentive Award Program** (CS Bargaining Units 11, 12 and excluded employees)
IM	**Awards/Bonuses/Incentives-Miscellaneous Incentive Program** (CS and CSU employees receiving sales bonuses, marketing incentives, continuing Medical Education reimbursements, etc.).

Non-cash goods, property, merchandise, etc. (**values vs. actual payments**) awards/bonuses/incentives are reported to SCO via form **STD. 676V** per PPM Section N 172.2. When using form STD. 676V, identify these values as:

ITEM CODE	ITEM DESCRIPTON
AI	**Awards/Bonuses/Incentives – Rideshare Incentive Award Program** (CS and CSU employees receiving goods, property, merchandise reimbursement for bicycle storage fees, bicycle parking, commute rider shower/locker charges etc.)
AL	**Awards/Bonuses/Incentives - Lottery Sales Recognition Program** (CS Bargaining Unit 1 and 4 employees receiving goods, property, merchandise, etc.)
AM	**Awards/Bonuses/Incentives - Merit Award Program** (CS and CSU employees receiving goods, property, merchandise, etc.)

II	**Awards/Bonuses/Incentives - Miscellaneous Incentive Program** (CS and CSU for recognition, morale, sales bonuses and other non-monetary awards).

EXCEPTION: Rideshare Incentive Award Program is exempt from California Income Tax withholding. To exclude from California wage reporting, leave the "State Code", Column 8 on form STD. 676V **blank**.

Section N 127.3: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting of Awards/Bonus/ Incentive amount.

For reporting of AI – Rideshare Incentive Award Program, refer to PPM Section Z – Attachment I – 12, Chart II.

Section N 127.3.1: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 127.4: INCENTIVES PROVIDED BY THIRD PARTIES (Revised 03/18)

Cash, cash equivalent and non-cash gifts/prizes/discounts incentives provided by a third party are reportable/taxable income.

REFERENCES

IR Code	61, 74 (a)(c);
IRS Regulations	1.274 -2 (c)(4), 31.3401 (a) - 1 (a)2, 31-3402 (j) -1
IRS Announcement	94-112
IRS Publication	535-Business Expenses 15-B – Employer's Tax Guide to Fringe Benefits

Section N 127.5: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Cash, cash equivalents (items readily convertible to cash such as Savings Bonds, gift certificates, stocks, etc.), non-cash gifts/prizes/non-qualified discounts and incentives meeting IRS Announcement 94-112 provisions are reportable/taxable income.

IRS ANNOUNCEMENT 94-112

IRS states that the value of a benefit provided to an employee in connection with the performance of services for an educational institution under **either** of the following circumstances is reportable/taxable income:

1. The benefit was contemplated during the employment process, OR
2. The benefit was provided by a third party through an arrangement with the employer (educational institution/university/campus)

If either of these conditions is met, the employer (employing campus) must report the value of the incentive.

QUALIFIED EMPLOYEE DISCOUNTS

Employer-provided discounts to employees are reportable/taxable incentives unless they are "**qualified employee discounts**." Qualified employee discounts are any employee discount on the selling price of property or services when provided on a nondiscriminatory basis to each member of a group of employees. The discount is the difference between the price of the property or services provided to employees and those offered non-employees by the employer.

A tax-free discount **cannot exceed** the gross profit percentage on property or 20% on services per **IRC 132 (c)**; amounts exceeding the discount exemption are reportable/taxable. The tax exemption for qualifying employee discounts is **limited** to only properties and services sold in the ordinary course of business in the employer's line of business wherein the employee works. Properties and services may not include real and personal property held for investment.

<u>EXAMPLE (TAXABLE)</u>: A campus provides employees an award. These employees receive a certificate redeemable for a 40% discount at the campus-owned bookstore. One employee buys a jacket priced at $100; however, utilizing the certificate, the employee only pays $60.00. THE AMOUNT OF THE ACTUAL DISCOUNT IS REPORTABLE/TAXABLE INCOME - $40.00 is reportable/taxable income.

<u>EXAMPLE (NON-TAXABLE)</u>: A campus provides all employees with a discount card to the campus-owned bookstore. The card provides employees with a percentage discount on all purchases at the bookstore. Because the discount is provided to all employees, the discount does not represent reportable/taxable income IF THE AMOUNT OF THE DISCOUNT DOES NOT EXCEED AN AMOUNT EQUAL TO THE BOOKSTORE'S GROSS PROFIT PERCENTAGE.

<u>EXAMPLE (TAXABLE)</u>: An employee earns a performance or sales bonus. The bonus is a $50.00 gift certificate or cash provided by a vendor. The $50.00 VALUE OF THE CERTIFICATE OR MERCHANDISE IS REPORTABLE/TAXABLE INCOME.

EXAMPLE (TAXABLE): A campus Athletic Department or correctional institution buys sports merchandise from Company X. As the result of this purchase, Company X provides free sportswear to employees. THE VALUE OF THE MERCHANDISE PROVIDED EMPLOYEES IS REPORTABLE/TAXABLE INCOME.

Section N 127.7: REPORTING INSTRUCTIONS (Revised 01/06)

Third Party Incentive payments are reported to SCO via form **STD. 676P**, per PPM Section N 172.2. When using form STD. 676P, identify these payments as:

ITEM CODE	ITEM DESCRIPTION
IT	**INCENTIVES PROVIDED BY A THIRD PARTY**

Third party incentive values for **gifts**, **goods**, **services**, **merchandise**, **etc**., are reported to SCO via form **STD. 676V**, per PPM Section N 172.2. When using form STD. 676V, identify these values as:

ITEM CODE	ITEM DESCRIPTION
IE	**INCENTIVES PROVIDED BY A THIRD PARTY**

Section N 127.8: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting of Incentives Provided to Employee.

Section N 127.9: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 128: BICYCLE MILEAGE (Revised 04/18)

All employer paid reimbursements for business mileage via an employee owned bicycle are reportable/taxable income. For other reimbursements for bicycle storage, parking, etc., please refer to **Awards/Bonuses/Incentives N 127.1 – Al**.

REFERENCES

IR Code 62
PUB.L. NO. 110-343
IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits

Public Law 115-97 – 2017 Federal Tax Cuts and Jobs Act Section 11047
California Code of Regulations (CCR) Section 559.627 (Special Transportation)
Section 599.627.1 (Special Transportation-Excluded Employees)

Section N 128.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 128.1.1: GENERAL INFORMATION (Revised 03/18)

Qualified Bicycle Commuting Reimbursement Suspended

Section 11047 of new tax legislation (P.L. 115-97) suspends the exclusion of qualified bicycle commuting reimbursements (up to $20.00 per qualifying month) from employee's gross income and wages for any tax year beginning after December 31, 2017, and before January 1, 2026. Employer reimbursements for bicycle commuting expenses are now taxable and subject to payroll taxes and income tax withholding. The suspension of the exclusion does not apply after 2025.

Beginning January 1, 2026, employees may exclude reimbursements paid by employers for qualified bicycle commuting expenses. The maximum exclusion is $20 times the number of months the employee uses a bicycle for commuting to work. Allowable expenses include the purchase, maintenance, repair and storage expenses related to bicycle commuting. ***IRC 132(f)(1)(D)***

The bicycle commuting expense exclusion cannot be claimed for any period in which the exclusion for public transit passes or qualified parking is claimed. ***IRC 132(f)(1)(F)(iii)(II)***

Section N 128.1.2: REPORTING INSTRUCTIONS (Revised 01/06)

Agencies/campuses should use form **STD. 671**, Miscellaneous Payroll/Leave Action, or **Form 672**, Time and Attendance, to report bicycle reimbursement payments via the PIP System. Refer to PPM Section G 150 for completion instructions.

Bicycle reimbursements may also be reported to SCO via form **STD. 676P**, per PPM Section N 172.2. When using form STD. 676P, identify these payments as:

ITEM CODE	ITEM DESCRIPTION
BM	**BICYCLE MILEAGE**

For agencies using the California Automated Travel Expense Reimbursement System (CalATERS), employees may request reimbursement of Bicycle Mileage/Miscellaneous Bicycle Fees via the CalATERS. For taxable reimbursements paid through the CalATERS, no action is required by agencies as the CalATERS directly interfaces reportable/taxable income with the Non-USPS. For more information regarding the CalATERS, please visit http://www.sco.ca.gov/calaters.html.

Section N 128.1.3: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting of Bicycle Mileage/Miscellaneous Bicycle Fee reimbursements.

Section N128.2: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 128.3: BICYCLE COMMUTER PROGRAM BENEFIT (New 05/18)

All employer paid incentives for this bicycle commuter program via an employee owned bicycle are reportable/taxable income.

REFERENCES

Government Code Section 18502
Government Code Section 19815.4

Section N 128.3.1: APPLICABLE TAXES (New 05/18)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 128.3.2: GENERAL INFORMATION – BICYCLE COMMUTER PROGRAM BENEFIT (New 05/18)

Effective May 1, 2018

In an effort to support sustainable commuting practices by encouraging active state employees to use bicycles as their primary means of commuting and to promote health and wellness, the state offers a bicycle commuter program benefit. The benefit will allow active state employees to receive a monthly taxable incentive of up to $20.00 per calendar month with a maximum allowable benefit of $240.00 per calendar year. CalHR administers this program.

- Eligibility and Participation
  - Active state employees who:
    - Regularly use their bicycles for a substantial portion (at least 50 percent of the days they are scheduled to work in a calendar month) of their commutes.
    - Employees self-certify their eligibility to participate.
    - Employees must complete a self-certification form and submit it to their departmental accounting offices.
    - Receipts are not required as this is a self-certified benefit program.
  - Employees whose salaries are not paid directly by the state (for example, student assistants who are paid by foundations) are not eligible to participate in this program.

Section N 128.3.3: REPORTING INSTRUCTIONS (New 05/18)

Taxable Bicycle Commuter Program incentive payments are reported to SCO via form STD. 676P per PPM Section N172.2. When using form STD 676P, identify the specific payment as:

ITEM CODE	ITEM DESCRIPTION
BC	**BICYCLE COMMUTER PROGRAM**

For agencies using the California Automated Travel Expense Reimbursement System (CalATERS), employees may request for payment of Bicycle Commuter Program Benefit Incentive via the CalATERS. For taxable payment paid through the CalATERS, no action is required by agencies as the CalATERS directly interfaces reportable/taxable income with the Non-USPS. For more information regarding the CalATERS, please visit http://www.sco.ca.gov/calaters.html.

Section N 128.3.4: FORM W-2 REPORTING (New 05/18)

For reporting of BC – Bicycle Commuter Program, refer to PPM Section Z – Attachment 1-12, Chart I.

Section N 128.3.5: PAYMENT HISTORY OF YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 05/18)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 129: CARS (Revised 01/02)

Section N 129.1: PERSONAL USE OF A STATE VEHICLE (Revised 01/15)

The value of personal use of State-owned or leased vehicles (PUSV) including personal commutes between home and office/office to home is reportable taxable income.

REFERENCES (Revised 03/18)

IRS Regulations	1.61-21(d)(e)(l), 1.132.5, 1.132-6(e)(2), 1.274-5T(k)(2)
IRS Revenue Procedure	2010-116
IRS Publications	15-B - Employer's Guide to Fringe Benefits 463 - Travel, Entertainment, Gift and Car Expenses 525 - Taxable and Nontaxable Income 535 - Business Expenses 587 - Business Use of Your Home
IRS Announcement	IR 2012-01
IRS Announcement	IR 2012-95
IRS Notice	2014-11
Internal Revenue Bulletin	2014-13
IRS Notice	2012-72
IRS Notice	2013-27
Internal Revenue Bulletin	2013-18
IRS Announcement	IR 2013-95
IRS Notice	2013-80

Federal, State and Local Governments (FSLG) Benefit Guide January 2013

Executive Order 13635 superseded by EO 13641

Executive Order 13641 superseded by EO 13655

Executive Order 13655 superseded by EO 13686

OPM 2014 Executive and Senior Level Employee Pay Tables

OPM 2015 Executive and Senior Level Employee Pay Tables

CalHR PML	2014-049
CalHR PML	2013-043
CalHR PML	2016-010
CalHR Announcement	2018 Mileage Reimbursement Rate for Use of Personal Vehicle 1/8/2018
IRS Announcement	IR 2014-014
IRS Notice	2014-79
IRS Notice	2015-1
Internal Revenue Bulletin	2015-2
IRS Announcement	IR 2015-137
IRS Announcement	IR 2016-169
IRS Announcement	IR 2017-204
IRS Notice	2016-1
IRS Notice	2016-12
IRS Notice	2017-03
IRS Notice	2016-79
IRS Notice	2018-03
Internal Revenue Bulletin	2016-6
Internal Revenue Bulletin	2017-2
Internal Revenue Bulletin	2018-2
Executive Order	13715
Executive Order	13756
Executive Order	13819
OPM 2016 Executive and Senior Level Employee Pay Tables	
OPM 2017 Executive and Senior Level Employee Pay Tables	
OPM 2018 Executive and Senior Level Employee Pay Tables	

APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 129.1.2: GENERAL INFORMATION (Revised 03/18)

The value of all PUSV (unless noted in PPM Section N 129.1.3) is taxable income and must be reported to the SCO using Special Valuation Rules. Personal use includes miscellaneous non-business trips, daily work commutes, etc. Commutes include trips from home to headquarters/regular office and headquarters/regular office to home. If an employee routinely works at the same multiple sites, the commute to each of those sites and back home again is also a personal commute. Employers must apply facts and circumstances on a case-by-case basis to determine taxable "personal use."

Agencies/campuses may choose any of three Special Valuation Rules. Additionally, the General Valuation Principle may be chosen by an **employee** in lieu of a Special Valuation Rule. Each option is outlined below.

AGENCY/CAMPUS OPTIONS:

AUTO LEASE VALUATION (AUTO) RULE – IRS Regulation 1.61- 21(d) (iii)

The reportable/taxable amount is the adjusted annual lease value of the vehicle. Tables to determine the Annual Lease Value are in IRS Publication #463, Travel, Entertainment, Gift, and Car Expenses and 15-B, Employer's Tax Guide to Fringe Benefits. The annual lease values in the table are based on a **4-year lease** term. These values will generally stay the same for the period that begins with the first date you use this special rule for the automobile and ends on December 31 of the 4th full calendar year following that date.
(IRS Reg. 1.61-21(d)(2)

VEHICLE CENTS PER MILE RULE – IRS Regulation 1.61-21(e)

This rule cannot be used if the vehicle is:

- not used regularly (50% by mileage) in the employer's business, or
- not used each workday to transport at least three employees to and from work in an employer Sponsored commuting vehicle pool, or
- driven by employees at least 10,000 miles per year, or
- has a Fair Market Value (FMV) greater than the annually established level for Vehicle Cents Per Mile Rule.

The following FMVs were established for cars:

2017	$15,900
2016	$15,900
2015	$16,000
2014	$16,000
2013	$16,000
2012	$15,900
2011	$15,300
2010	$15,300
2009	$15,000

The limit for trucks and vans is $17,800 ($17,700 in 2016, $17,500 in 2015, $17,300 in 2014 and $17,000 in 2013). Please see Rev, Proc. 2012-13; Reg, 1.61-21(e)(l); Reg. 1.280F; Internal Revenue Bulletin 2016-6; Internal Revenue Bulletin 2017-2; IRS Notice 2015-1; Internal Revenue Bulletin 2015-2 and Taxable Fringe Benefit Guide, Updated Jan 2014.

Under this rule, the Federal Standard Mileage Rate (FSMR) is multiplied by the number of miles driven for personal purposes. The result equals the reportable/taxable value. Value may be reduced by $0.545/mile when fuel is provided by the employee.

The following FSMRs were established:

2018	$.545/mile	
2017	$.535/mile	
2016	$.54/mile	
2015	$0.575/mile	
2014	$0.56/mile	
2013	$0.565/mile	
2012	$0.555/mile	
2011	$0.555/mile	07/01/11 – 12/31/11
2011	$0.51/mile	01/01/11 – 06/30/11
2010	$0.50/mile	
2009	$0.55/mile	

COMMUTING VALUATION RULE – IRS Regulation 1.61-21(f)

The reportable/taxable amount is $1.50 per one-way commute or $3.00 per round trip.

Personal Use for commuting can be valued $1.50 each one-way commute if:

- Vehicle is owned or leased by employer
- Vehicle is provided to employee for business use
- Employer <u>requires</u> employee to commute in vehicle for valid non-compensatory business reasons*
- Employer has a written policy prohibiting personal use other than commuting
- Employee does not use the vehicle for other than de minimis personal use

  If more than one employee commutes in the vehicle, the $1.50 each-way rule applies to each employee. Reg. 1.61-21(f)

*** Key Concepts: The employer must <u>require</u> the employee to use the vehicle for a <u>business</u> purpose; it cannot be voluntary on the employee's part**.

This rule cannot be used if the employee is a Control Employee. A Public Sector Control Employee is:

- An elected official, or
- An employee whose compensation equals or exceeds a federal government-employee compensated at Executive Level V.

The following compensation Executive V levels were established:

2018	$153,800
2017	$151,700
2016	$150,200
2015	$148,700
2014	$147,200
2012-2013*	$145,700

2011	$145,700
2010	$145,700
2009	$143,500

EMPLOYEE OPTION:

*For pay periods beginning after March 27, 2013, it is $146,400 (Reg. 1.61-21(f) (6); OPM EO 2012 January 2013 and Executive Order 13635). EO 13635 was superseded by EO 13541 fixing the rate at $145,700 for pay period beginning on or after January 1, 2013.

GENERAL VALUATION RULE

Under this rule, the value of a fringe benefit is its FAIR MARKET VALUE. The reportable/taxable amount (FMV of an employer-provided vehicle) is the amount an unrelated third party would charge a person to lease the same or similar vehicle on the same or comparable terms in the geographic area where the employee uses the vehicle.

This option typically results in a higher reportable/taxable value (PUB. 15-B, Chapter 3).

NOTE: The options listed above are discussed in IRS Publications 525, Taxable and Nontaxable Income and 15-B, Employer's Tax Guide to Fringe Benefits. These publications are available from local IRS offices, requested by calling toll free at 1-800-829-3676 or via IRS' website: (www.irs.gov).

Section N 129.1.3: EXCEPTIONS TO REPORTING (Revised 03/13)

There are exceptions to PUSV being taxable:

- De Minimis Fringe Benefit and
- Qualified Non Personal Use Vehicle and
- Working Condition Fringe Benefit

DE MINIMIS FRINGE BENEFIT – IRS Regulation 1.132-6(d)(3)

If an employee commutes in a State-owned or leased vehicle **no more than once a month**, the value is exempt from gross income. The regulation is available to cover infrequent, irregular situations. The regulation does not automatically provide for 12 free commutes in a calendar year. **A commute is defined as a round-trip from home to office or office to home and return and/or any two one-way trips from home to office or office to home**.

QUALIFIED NON-PERSONAL USE VEHICLE – IRS Regulation 1.274-5T(k)(2)

The value of a "qualified non-personal use vehicle" is excluded from gross income. To qualify, the following conditions must be satisfied and documented by actual "facts and circumstances."

A qualified non-personal use vehicle is any vehicle that is not likely to be used more than minimally for personal purposes because of the way it is designed.

- Clearly marked police, fire or public safety officer vehicles* (as defined and to the extent provided in paragraph (k)(3) of the IRS Regulation),
- Ambulances used as such or hearses used as such,
- Any vehicle designed to carry cargo with a loaded gross vehicle weight over 14,000 pounds,
- Bucket trucks ("cherry pickers"),
- Cement mixers,
- Combines,
- Cranes and derricks,
- Delivery trucks with seating only for the driver only, or only for the driver plus a folding jump seat (as defined in paragraph (k)(7) of the IRS Regulation),
- Dump trucks (including garbage trucks),
- Flatbed trucks,
- ***Clearly marked police, fire or public safety officer vehicles***. A police, fire or public safety officer is a vehicle, owned or leased by a governmental unit or any agency or instrumentality thereof, that is required to be used for commuting by a police officer, fire firefighter or public safety officer who, when not on a regular shift, is on call at all times, provided that any personal use (other than commuting) of the vehicle outside the limit of the police officer's arrest powers or the fire fighter's or public safety officer's obligation to respond to an emergency is prohibited by such governmental unit. A police, fire or public safety officer vehicle is clearly marked if, through painted insignia or words, it is readily apparent that the vehicle is a police, fire or public safety officer vehicle. A marking on a license plate is not a clear marking. (Reg. 1.274-5T(k)(3))
- Forklifts,
- Passenger buses used as such with a capacity of at least 20 passengers,
- Qualified moving vans (as defined in paragraph (k)(4) of the IRS Regulation),
- Qualified specialized utility repair trucks (as defined in paragraph (k)(5) of the IRS
- Regulation -- see below),
- Refrigerated trucks,
- School buses (as defined in paragraph 422(d)(7)(C) of the IRS Regulation),
- Tractors and other special purpose farm vehicles,
- Unmarked vehicles** used by law enforcement officers*** (as defined in paragraph (k)(6) of the IRS Regulation) if the use is officially authorized and
- Such other vehicles as the Commissioner may designate.

** ***Unmarked law enforcement vehicle***. The substantiation requirements of Section 274(d) do not apply to officially **authorized uses of an unmarked vehicle by a "law enforcement officer". To qualify, any personal use must be authorized by State agency or department that owns or leases the vehicle and employs the officer, and must be incident to law-enforcement**

functions, such as reporting directly from home to a stakeout or surveillance site, or to an emergency situation.

******Law enforcement officer***. The term "law enforcement officer" means an individual employed **on a full-time basis by a governmental unit that is responsible for the prevention or investigation of crime involving injury to persons or property** (including apprehension or detention of persons for such crimes), **who is authorized by law to carry firearms, execute search warrants, and make arrests (other than merely a citizen's arrest), and who regularly carries firearms** (except when not possible due to requirements of undercover work). The term "law enforcement officer" may include an arson investigator if the investigation otherwise meets these requirements. Designation of "peace officer" does not by itself, satisfy IRS requirements -- all conditions noted above must be satisfied.

NOTE: Clearly marked campus police cars used to commute from home to work (off campus to campus) do not qualify under 1.274-5T(k)(2). However, campus police cars used to commute from home (on campus) to work (on campus) may qualify if the other conditions noted above are satisfied.

Qualified Specialized Utility Repair Truck. Truck (not a van or pickup truck) is specifically designed/used to carry heavy tools, testing equipment or parts and shelves, racks or permanent interior construction were installed to carry/store such items and as a result, it is unlikely the vehicle would be used for personal commutes. The employer requires the employee to drive the truck home to respond to emergency situations for purposes of restoring or maintaining electricity, gas, telephone, water sewer of steam utility services.

Specially Modified Trucks and Vans. Truck or van must be specifically modified wherein the result precludes personal use except on a de minimis basis. A van or pickup truck with a loaded gross vehicle weight under of 14,000 pounds or less is a qualified non-personal use vehicle if it fall into **one** of the following categories:

- The vehicle is clearly marked with permanently affixed decals or special painting or other advertising associated with the employer's trade, business or function and is equipped with at least **one** of the following: a hydraulic lift gate, permanently installed tanks or drums, permanently installed side boards or panels materially raising the level of the sides of the bed of the pickup truck or other heavy equipment, such as an electric generator, welder, boom or crane used to tow automobiles and other vehicles.
- The vehicle is clearly marked with permanently affixed decals or special painting or other advertising associated with the employer's trade, business or function, is actually used primarily for transporting a particular type of load other than over the public highway in connection with a construction, manufacturing, processing, farming, mining, drilling, timbering or other similar operations, **and** was specially designed or modified to a significant degree for such use.

A van with a loaded gross vehicle weight under of 14,000 pounds or less is a qualified non-personal use vehicle **if**:

- It is clearly marked with permanently affixed decals or special painting or other advertising associated with the employer's trade, business, or function, it has a seat only

for the driver or the driver and one other person, and either permanent shelving was installed that fills most of the cargo area.

Or

- The cargo area is open and the van constantly (during both working and non-working hours) carries merchandise, material, or equipment used in the employer's trade, business or function.

Facts and Circumstances. IRS considers the nature of the vehicle, nature of the employer's need to use qualified non-personal use vehicles and other requirements as those noted above. **These combined factors represent "facts and circumstances" that must be applied on a case-by-case basis to determine whether or not vehicle use is/is not tax-free**.

Working Condition Fringe Benefit (Employee's Home/Headquarters):

For the value of the personal use of a State-owned or leased vehicle to be excluded from income for an employee whose home is designated as his/her headquarters, **the following criteria must be met by the department and employee**:

1. The employer must designate the employee's home as his/her headquarters (please refer to CalHR rules 599.616 and 599.616.1).
2. The employee's home/headquarters must meet the conditions of IRC Section 280A(c) as the employee's "principal place of business." The term **"principal place of business" is defined as a place of business of the employee if there is no other fixed location of such business where the employee conducts substantial administrative activities of such business. To qualify, the employee must perform his/her primary administrative activities at home, as opposed to at home and another location**.

   Administrative activities are defined as those activities that are not performed in the field but are conducted in an office setting. Such activities include, but are not limited to, preparing reports; completing time sheets/travel expense claims; returning phone calls; preparing correspondence (either hard copy or e-mail); evaluating and making recommendations regarding departmental regulations; reviewing research material; providing consultation to agency staff, other State agencies, and/or members of the public; and developing and maintaining a library of technical and informational documents pertaining to the agency's mission and/or employee's assigned responsibilities.
3. The designation of the home/headquarters as the "principal place of business" must be for the convenience of the employer versus the convenience of the employee. **The convenience of the employer means that the employer has a substantial non-compensatory business reason that requires this designation**.
4. **The employee must demonstrate that the home/headquarters assignment qualifies as a legitimate tax deduction**. Refer to IRS Publications including #587 – Business Use of your Home.
5. The employer and employee must document, as defined **ALL VEHICLE USE**. The information required includes: mileage (total business, commuting, use of other personal mileage), percentage of business use, dates placed in service, use of other vehicles, after work use, and maintain evidence to support the business use claimed.

The IRS requires that the information must include all use, not just the first and last trip of the day.

6. The work locations that an employee routinely travels to daily cannot be a single work location. If the employee reports to different locations at the beginning of each workday versus the same locations routinely, this condition is met. For example, if the employee leaves his/her home/headquarters and routinely goes to the same work location each day, the IRS states this use is a taxable commute.

If all the conditions listed above (items 1 through 6) are not met, the personal use of a State owned or leased vehicle is considered a "fringe benefit" and constitutes taxable income.

Section N 129.1.4: REPORTING INSTRUCTIONS (Revised 07/07)

Taxable PUSV values are reported to SCO via form **STD. 676V**, per PPM Section N 172.2. When using form STD. 676V, identify these values as:

ITEM CODE	ITEM DESCRIPTION
CP	**CARS – PERSONAL USE OF STATE VEHICLE**

Section N 129.1.5: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting of all Personal Use of State Vehicle values.

Section N 129.1.6: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 129.2: VEHICLES PROVIDED BY THIRD PARTIES (Revised 04/14)

The value of the personal use of vehicles provided to employees by third parties, including CSU Foundations, Booster Clubs and automobile dealerships is reportable/taxable income.

REFERENCES (Revised 03/18)

IRS Announcement	IR 2014 - 014
IRS Notice	2014-79
IRS Announcement	IR 2016-169
IRS Announcement	IR 2015-119

IRS Announcement	IR-2017-204
IRS Notice	2016-79
IRS Notice	2017-03
IRS Notice	2015-1
IRS Notice	2018-03
Internal Revenue Bulletin	2015-2
IRS Announcement	IR 2015-137
IRS Notice	2016-1
IRS Notice	2016-12
Internal Revenue Bulletin	2016-6
IRS Notice	2014 - 11
Internal Revenue Bulletin	2014 - 13
IRS Announcement	IR 2012-95
IRS Announcement	IR 2011-40
IRS Announcement	IR 2013-95
IRS Notice	2013-80
IRS Notice	2013-27
Internal Revenue Bulletin	2013-18
Internal Revenue Bulletin	2018-2
IRS Regulations	1.61 -21, 1.274-5T(h)
IRS Publications	15-B - Employer's Guide to Fringe Benefits 463 – Travel, Entertainment, Gift and Car Expenses 535 – Business Expenses

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Section N 129.2.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 129.2.2: GENERAL INFORMATION (Revised 03/18)

The value of vehicle use provided employees by a third party is reportable/taxable income under Internal Revenue (IRS) Announcement 94-112. IRS states if a vehicle is provided to an employee in connection with the performances, of services for the university under either of the following circumstances, the value of the personal use of the vehicle is reportable/taxable income when:

1. the benefit (vehicle) was contemplated during the employment process, OR

2. the benefit (vehicle) was provided by a third party through an arrangement with the employer (campus).

If either condition is met, the value of the personal use of the vehicle must be reported monthly by the employer to the State Controller's Office. California law defines gross income the same as Federal law.

EXAMPLE (TAXABLE): As part of negotiating an employee's employment and/or compensation package, a campus enlists a foundation or dealership to provide a vehicle to the employee. THE VALUE OF THE PERSONAL USE OF THE VEHICLE IS REPORTABLE/TAXABLE INCOME.

EXAMPLE (TAXABLE): An automobile dealership provides a vehicle to a campus athletic department employee. There is an agreement between the dealership, foundation and/or campus to give the dealership advertising in exchange for the vehicle. THE VALUE OF THE PERSONAL USE OF THE VEHICLE IS REPORTABLE/TAXABLE INCOME.

EXAMPLE (NON -TAXABLE): A coach independently negotiates a vehicle as compensation from a dealership for various promotions for that dealership. There was **no involvement** in the compensation arrangement by the campus or foundation. The vehicle was unilaterally provided to the coach by the dealership to promote its own business interest. Although the coach has income tax consequences for the vehicle, the campus has no responsibility for reporting this income.

DETERMINING VALUE

The value of a vehicle provided by a third party must be determined by one of three methods. The campus must select from the following methods:

1. General Valuation Rule
2. Annual Lease Valuation Rule, or
3. Vehicle Cents Per Mile Rule.

GENERAL VALUATION RULE

The Fair Market Value (FMV) must be used unless one of the two valuation rules discussed below is used. FMV is the amount an employee would pay a non-involved party for use of the vehicle. FMV is not necessarily the amount the employee or dealership considers the value of the vehicle.

ANNUAL LEASE VALUATION RULE

The reportable/taxable amount is the adjusted annual lease value of the vehicle. Tables for determining the Annual Lease Value are in IRS Publication 463, Travel, Entertainment, Gift, and Car Expenses, and 15-B, Employer's Tax Guide To Fringe Benefits. The annual lease values in the table are based on a 4-year lease term. These values will generally stay the same for the period that begins with the first date you use this special rule for the automobile and ends on December 31 of the 4th full calendar year following that date.

Annual lease value is adjusted by an employee's percentage of personal use and excludes the value of employer provided gasoline used for personal purposes. An additional $0.535/mile is reported for each mile of personal use if the fuel was provided to the employee.

VEHICLE CENTS PER MILE RULE

This rule cannot be used if the vehicle is:

- not used regularly (50% by mileage) in the employer's business, or
- driven less than 10,000 miles per year, or
- has a FMV greater than the annual established level for Vehicle Cents Per Mile Rule.

The following FMVs were established for cars:

2017	$15,900
2016	$15,900
2015	$16,000
2014	$16,000
2013	$16,000
2012	$15,900
2011	$15,300
2010	$15,300
2009	$15,000

Under this rule, the Federal Standard Mileage Rate (FSMR) is multiplied by the number of miles the vehicle was used for personal purposes. The result is the reportable/taxable value. Value may be reduced by $0.545/mile when fuel is provided by the employee.

The following FSMRs were established:

2018	$0.545/mile	
2017	$0.535/mile	
2016	$0.54/mile	
2015	$0.575/mile	
2014	$0.56/mile	
2013	$0.565/mile	
2012	$0.555/mile	
2011	$0.555/mile	07/01/11 – 12/31/11
2011	$0.51/mile	01/01/11 – 06/30/11
2010	$0.50/mile	
2009	$0.55/mile	

Section N 129.2.3: REPORTING INSTRUCTIONS (Revised 01/06)

Taxable vehicle values, **provided by a third party**, are reported to SCO via form **STD. 676V**, per PPM Section N 172.2. When using form STD. 676V, identify these values as:

ITEM CODE	ITEM DESCRIPTION
CV	**CARS – VEHICLES PROVIDED BY A THIRD PARTY**

Section N 129.2.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting the value of Vehicle Provided by Third Party.

Section N 129.3: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 130: CAR MILEAGE (Revised 03/18)

Employer paid reimbursements for "non-business travel" (personal) car mileage expenses are reportable/taxable income.

REFERENCES

IRS Revenue Ruling	94-47
IRS Regulation	1.61 - 21
IRS Publications	463 - Travel, Entertainment, Gift and Car Expenses 535 - Business Expenses 15- B Employer's Tax Guide to Fringe Benefits

Section N 130.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 130.1.2: GENERAL INFORMATION (Revised 03/10)

Mileage reimbursements paid employees for "non-business travel" are always reportable/taxable income even if paid at or below the Federal mileage rate. Non-business travel includes: personal commutes between home and office and vice versa, commutes to and from remote headquarters and any other personal commutes involving mileage not associated with business travel. Taxable mileage reimbursements include:

CALL BACK/OVERTIME MILEAGE - Personal mileage incurred due to being called back to the office after a normal work shifts ends, overtime, coming to work on a normal day off. It also includes reimbursement for court appearances.

REMOTE HEADQUARTERS MILEAGE - Personal mileage incurred when commuting to headquarters is 15 or more road miles (one way) from the nearest residential area.

COMMUTER MILEAGE - Personal mileage incurred for all other non-business travel.

Section N 130.1.3: REPORTING INSTRUCTIONS (Revised 01/02)

Agencies/campuses should use form **STD. 671**, Miscellaneous Payroll/Leave Action, or **Form 672**, Time and Attendance, to report Call Back/Overtime, Remote Headquarters and Commuter Mileage payments via the PIP System. Refer to PPM Section G 150 for completion instructions.

Mileage reimbursements may also be reported to SCO via form **STD. 676P** per PPM Section N 172.2. When using form STD. 676P, identify car reimbursements as:

ITEM CODE	ITEM DESCRIPTION
CB	CARS – CALL BACK/OVERTIME MILEAGE
CC	CARS – COMMUTER MILEAGE
CR	CARS – REMOTE HEADQUARTERS MILEAGE

For agencies using the California Automated Travel Expense Reimbursement System (CalATERS), employees may request reimbursement of Call Back/Overtime and Remote Headquarters Mileage via the CalATERS. For taxable reimbursements paid through the CalATERS, no action is required by agencies as the CalATERS directly interfaces reportable/taxable income with the Non-USPS. For more information regarding the CalATERS, please visit http://www.sco.ca.gov/calaters.html.

Section N 130.1.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting Mileage reimbursements.

Section N 130.1.5: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 130.2: STANDARD BUSINESS MILEAGE REIMBURSEMENT (Revised 01/15)

Standard Business Mileage reimbursements exceeding an employer's "reimbursement rate," or FSMR (whichever is lower) are reportable/taxable income.

REFERENCES (Revised 03/18)

IR Code	62
IRS Regulations	1.274 - 5T
IRS Procedures	2010-119
IRS Publications	463 – Travel, Entertainment, Gift and Car Expenses 535 – Business Expenses
IRS Announcement	IR 2012-95
IRS Announcement	IR 2011-116
IRS Announcement	IR-2017-204
CalHR Announcement	2018 Mileage Reimbursement for Use of Personal Vehicle 01/01/18
DPA PML	2011 – 050
	2011 - 028
IRS Announcement	IR 2013-95
IRS Notice	2013-80
CalHR PML	2013-043
IRS Announcement	IR 2014-114
IRS Notice	2016-79
IRS Notice	2014-79
IRS Announcement	IR 2016-169
IRS Announcement	IR 2015-137
IRS Notice	2016-1
CalHR PML	2015-041
CalHR PML	2016-010

Section N 130.2.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

The State maintains various business mileage reimbursement plans for Civil Service, CSU, Legislative and Judicial Council and Military Department (SAD) employees. When an employer's business mileage reimbursement plan provides for a range of rates, **the lowest rate in the range becomes the employer's "reimbursement rate" when applying the deemed substantiation rule**. Except for CSU and specialized vehicle mileage rates, business mileage paid under these plans is non-taxable income as each plan pays a per mile rate lower than the FSMR.

Some State plans provide business mileage reimbursement for **specialized vehicle use** wherein the employer plan provides a range of rates. Reimbursements paid by the employer are nontaxable when the lowest rate in the range is paid <u>and</u> that rate is **equal to or less than the FSMR**. Any payment exceeding the "reimbursement rate" or when the employer's rate paid exceeds the FSMR is taxable and reportable income.

Federal Standard Mileage Rates (FSMR):

2018	$0.545/mile	
2017	$0.535/mile	
2016	$0.54/mile	
2015	$0.575/mile	
2014	$0.56/mile	
2013	$0.565/mile	
2012	$0.555/mile	
2011	$0.555/mile	07/01/11 – 12/31/11
2011	$0.51/mile	01/01/11 – 06/30/11
2010	$0.50/mile	
2009	$0.55/mile	

Standard State business mileage rates:

Civil Service	$0.545/mile	2018
Civil Service	$0.535/mile	2017
Civil Service	$0.54/mile	2016
Civil Service	$0.575/mile	2015
Civil Service	$0.56/mile	2014
Civil Service	$0.565/mile	2013
Civil Service	$0.555/mile	2012
Civil Service	$0.555/mile	07/01/11 – 12/31/11
Civil Service	$0.51/mile	01/01/11 – 06/30/11
Civil Service*	$0.50/mile	2010
Civil Service*	$0.55/mile	2009
CSU	$0.545/mile	2018

CSU	$0.535/mile	2017
CSU	$0.54/mile	2016
CSU	$0.575/mile	2015
CSU	$0.56/mile	2014
CSU	$0.565/mile	2013
CSU	$0.555/mile	2012
CSU	$0.51/mile	2011
CSU	$0.50/mile	2010

Legislature

Senate	$0.545/mile	
Assembly	$0.545/mile	2018

Judicial Council

$0.545/mile	2018
$0.535/mile	2017
$0.54/mile	2016
$0.575/mile	2015
$0.56/mile	2014
$0.565/mile	2013
$0.555/mile	2012
$0.555/mile	07/01/11 – 12/31/11
$0.51/mile	01/01/11 – 06/30/11
$0.50/mile	2010

Military

$0.545/mile

Section N 130.2.3: REPORTING INSTRUCTIONS (Revised 03/18)

Standard Business Mileage reimbursements are reported to SCO via form **STD. 676P** per PPM Section N 172.2. When using form STD. 676P, identify these payments as:

ITEM CODE	ITEM DESCRIPTION
CS	CARS – STANDARD BUSINESS MILEAGE

An example of Standard Business Mileage Reimbursement reporting follows:

A Civil Service employee (excluded) attends a July business meeting. Travel to and from the meeting totals 100 miles. The employee certifies according to the employer's plan and claims $0.65 per mile. The mileage reimbursement must be reported as two separate rates. The nontaxable mileage reimbursement amount is $54.50 (100 miles @ $0.545); the taxable

mileage is $10.50 (100 miles @ $0.105). The $10.50 taxable income results from employer reimbursing at an amount greater than the FSMR and/or the
Civil Service "deemed substantiated" rate. Report mileage reimbursements via form STD. 676P reflecting $10.50 in the Gross Amount Subject to Withholding (field 6) and $54.50 in Gross Amount Not Subject to Withholding (field 7).

For agencies using the California Automated Travel Expense Reimbursement System (CalATERS), employees may request reimbursement of Standard State Business Mileage via the CalATERS. For taxable reimbursements paid through the CalATERS, no action is required by agencies as the CalATERS directly interfaces reportable/taxable income with the Non-USPS. For more information regarding the CalATERS, please visit http://www.sco.ca.gov/calaters.html.

Section N 130.2.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart III for reporting of Standard Business Mileage reimbursement amounts (including specialized vehicle mileage).

Section N 130.3: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 131: EDUCATIONAL ASSISTANCE (Revised 01/15)

Employer paid/reimbursed Educational Assistance (EA) is reportable/taxable income unless the EA meets specific requirements.

REFERENCES (Revised 01/15)

IRS Code	61, 62, 127 and 132(d)
IRS Regulations	1.162-5
Public Law	107-16
IRS Publication	970
IRS Publication	15-B

Section N 131.1: APPLICABLE TAXES (Revised 07/07)

NOTE: The following apply only to taxable EA reimbursements (amounts exceeding the annual exclusion amount).

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 131.1.1: GENERAL INFORMATION (Revised 07/07)

IRC regulations identify and distinguish various types of educational and training programs. An educational or training course may be exempt from tax under one or more IRC sections; or, fully taxable as no exemption exists. The three primary exemption based programs entail: **IRC 127 - Educational Assistance, IRC 132(d) – Working Condition Fringe Benefit,** and **IRC 117 - Scholarships/Tuition Waiver Programs**. IRC 127 and 132(d) provisions are discussed below; please refer to PPM Section N151 for IRC 117 provisions.

IRC 127: Effective January 1, 2002, IRC applies to graduate level courses. **CS ONLY**: reimbursed expenses under the Continuing Medical Education Program, established by CalHR and BU 16 representatives, do not meet IRC 127 requirements nor accountable plan provisions. All reimbursements made under this program represent taxable, reportable income and must be reported as **IM – Awards/Bonuses/Incentives**. Refer to PPM Section N 127 for reporting information.

The **IRC 127** exemption extends to current and terminated employees and employees retired on disability. This benefit, however, is not available for an employee's dependents or spouse. A course start date is considered to begin the first regular day of class for the course. The first regular day of class at an educational institution is the first day regular classes begin in a term.

The **IRC 127** benefits (graduate and undergraduate) exceeding the annual $5,250 limit per calendar year are reportable/taxable Federal and State income. **Graduate level courses are defined as any course taken by an individual who has received a bachelor's degree, or received credit toward a more advanced degree and any course normally taken under a program leading to law, business, medical or other advanced academic or professional degree (MD, MBA, etc.)**.

IRC 127 expenses may cover: tuition, books, supplies and equipment necessary for class. Expenses not covered and always taxable: tools or supplies which the employee keeps after course completion, education involving sports, games, hobbies unless job related, meals, lodging or transportation.

IRC 132(d): Educational reimbursements must be for job required training to **qualify** as a Working Condition Fringe Benefit. **Training must: maintain or improve job skills, meet an employer's express requirements or requirements of applicable law or regulation imposed as a condition to the retention by the individual as established employment relationship, status or rate of compensation and, qualify (had the employee paid for the training) the expense as an employee business expense (IRC 162) on Form 1040**. Education that directly relates to an employee's current, job which reinforces job knowledge and skills (e.g., refresher and update

courses) qualifies as tax-free. If the employee receives a cash reimbursement, the payment must be made under Accountable plan rules.

IRC 132(d) educational reimbursements **not qualifying are any courses needed to meet minimum educational requirements of a current job AND/OR any course taken to qualify an employee for a promotion or for a new trade or business**. If the employee receives a cash reimbursement and it is not issued under an Accountable plan, it is also taxable.

IRC 132(d) educational benefits are available to current employees for qualifying courses including undergraduate and graduate education. Reimbursements for tuition, books, supplies and equipment necessary for class are covered expenses.

Section N 131.1.2: REPORTING INSTRUCTIONS (Revised 02/07)

Agencies/campuses should use form **STD. 671**, Miscellaneous Payroll/Leave Action, or **Form 672**, Time and Attendance, to report EA payments via the PIP system. Refer to PPM Section G 150 for completion instructions.

Taxable Educational Assistance payments/values (reimbursements paid directly to third party) may also be reported to SCO via forms **STD. 676P** (payments) and **STD. 676V** (values) per PPM Section N 172.2. When using form STD. 676P or 676V, identify these payments/values as:

ITEM CODE	ITEM DESCRIPTION
EA	EDUCATIONAL ASSISTANCE

An example of EA reporting follows:

An employee's annual accumulated EA benefit surpasses the $5,250 threshold. The total employer provided benefit is $5,500. The amount exceeding $5,250 ($250) is reportable/taxable income. Report the $250 reimbursement via forms STD. 676P (if payments were issued to the employee) or STD. 676V (if payments were paid to the educational institution).

Section N 131.1.3: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting taxable Educational Assistance amounts.

Section N 131.2: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 132: ELECTRONIC DEVICES (Revised 05/13)

The value of personal use of employer-provided electronic devices and/or employer payment for personal use of an employee's device away from an employee's assigned work site are taxable/reportable income. Per IRS Notice 2011-72 and 2011-93, for taxable years beginning after December 31, 2009, the value of an employer-provided cell phone, provided primarily for noncompensatory business reasons, is excludable from an employee's income as a working condition fringe benefit. Personal use of an employer-provided, cell phone, provided primarily for noncompensatory business reasons, is excludable from an employee's income as a de minimis fringe benefit. Simultaneously with the notice, employers that require employees, primarily for noncompensatory business reasons, to use their personal cell phone for business purpose may treat reimbursements of the employees' expenses for reasonable cell phone coverage as nontaxable.

REFERENCES (Revised 05/13)

IRS Code	132(d), 162 ,167
IRS Regulations	1.132 - 5(a), 1.274 - 5T(c)
IRS Publication	15-B, Section 5, Employer's Tax Guide to Fringe Benefits
IRS Notice	2011-72 (Internal Revenue Bulletin 2011-38, 09/19/11)
Small Business Jobs Act	(Sec 2043) Pub. L. No. 11-240
IRS Notice	2011-93
Federal, State and Local Governments (FSLG) Fringe Benefit Guide, Updated January 2013	

Section N 132.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 132.2: GENERAL INFORMATION (Revised 05/13)

Employee use of employer-provided electronic devices away from an employee's assigned work site are taxable/reportable income when IRS exclusion criteria are not met. Electronic devices include but are not limited to employer-provided: pagers, cellular phones, personal computers, employer-paid Internet access for employees at home, service billings or monthly fees, etc.

When electronic devices are provided to employees, **the IRS requirements listed below must be met to exclude business use from income. All personal use generally represents taxable/reportable income**. When the employer pays for an employee's electronic device or

fees and the device/fees include personal use, the payment represents taxable income provided under a non-accountable plan.

The IRS characterizes these employer-provided assets that may be used away from the work site as "listed property." **"Listed property" is susceptible to personal/non-business use and therefore increases the likelihood that employees receive taxable income**. Further, employer-provided "listed property" subjects the employer and employees to the strict IRS substantiation rules.

Per IRS Notice 2011-72, Section 2043 of the Small Business Jobs Act removed cell phones from the definition of listed property for taxable years beginning after December 31, 2009. Because the act removed cell phones from the definition of listed property, the heightened substantiation requirements that apply to listed property no longer apply to cell phones for taxable years beginning after December 31, 2009.

Taxable income generally includes all income, from whatever source derived. Any benefit provided an employee in connection with performance of services is considered income, unless a specific exclusion applies, per Internal Revenue (IR) Code Section 61(a). Exclusions are allowed for Working Condition Fringe Benefits (WCFB) under Section 5 of Publication 15-B. IRS Notice 2011-72 also provides that, when an employer provides an employee with a cell phone primarily for noncompensatory business reasons, the IRS will treat the employee's use of the cell phone for reasons related to the employee's trade or business, as a working condition fringe benefit, the value of which is excludable from the employee's income and solely, for purposes of determining whether the WCFB provision in Section 132(d) applies, the substantiation requirements that the employee would have to meet in order for a deduction under Sec 162 to be allowable are deemed to be satisfied. In addition, the IRS will treat the value of any personal use of a cell phone provided by the employer primarily for noncompensatory business purposes excludable from the employee's income as a de minimis fringe benefit. The rules of this notice apply to any use of an employer-provided cell phone occurring after December 31, 2009.

WORKING CONDITION FRINGE BENEFITS

Under Section 132(d) of the Internal Revenue Code and per **IRS Regulation 1.132-5**, a WCFB is any property or service provided to an employee of the employer to the extent that, if the employee paid for such property or service, such payment could be claimed as a business deduction under **IRC Section 162 or 167**. To qualify as a WCFB, three requirements must be satisfied:

1. the employee's use of the property or service relates to the trade or business of his employer, as validated by the employer (employer maintains a policy precluding personal use);
2. the employee would have been entitled to a business expense deduction if he/she purchased the property or service provided by the employer; and
3. the employee maintains any records required with respect to the business use of the property or service provided by the employer and the employer routinely validates these records to insure only business use occurs.

The IRS requires that adequate records must be maintained to determine that only business use occurs. Adequate records, per **IR Temporary Regulation 1.274-5T(c)**, include the following:

- account books;
- diaries;
- logs;
- documentary evidences (e.g. receipts);
- expense reports; and
- written records.

To the extent that the IRS substantiation rules are satisfied, the exclusion for a WCFB shields the employee from taxable income, but only from the ***business use*** portion of employer-provided "listed property." **The employee's personal use of employer provided "listed property" falls outside of the WCFB exclusion and represents taxable income** (unless de minimis). The employee's taxable income equals the Fair Market Value (FMV) of the "listed property" attributable to personal use. The allocable **FMV is the amount that an individual would pay for the device, not necessarily what the employer paid for the device**.

ACCOUNTABLE PLAN REQUIREMENTS

Please refer to PPM Section N 120 - Fringe Benefits/Employee Business Expenses which details Accountable Plan criteria.

EXAMPLE (NON-TAXABLE): An agency (employer) provides an employee a cellular phone for business purposes. The agency's cellular phone policy prohibits personal use of the phone. The agency routinely audits the employee's phone billings to confirm that personal calls were not made. No personal calls were actually made by the employee. All IRS criteria are met; use of the phone is non-reportable, non-taxable.

EXAMPLE (NON-TAXABLE): An agency provides an employee a cellular phone for business purposes. The agency's cellular phone policy prohibits personal use of the phone. However, the agency does not audit the employee's phone billings to confirm only business use. The Fair Market Value (FMV) of the phone (one time value) plus the monthly phone service charge (on going) are no longer taxable, reportable income per IRS Notice 2011-72 and IRS Publication 15-B, Sec. 5. The FMV equals the amount employees would pay for the phone and phone service, not necessarily the cost that the agency paid for phone service.

EXAMPLE (NON-TAXABLE): An agency provides a personal computer, modem and Internet access to selected employees at home for business purposes -- to work at home. The agency's electronic device policy prohibits personal use of these devices. The agency routinely audits the employee's records to confirm there is no personal use or personal modem calls were made by the employee. All IRS criteria are met; use of the electronic devices is non-reportable, non-taxable.

EXAMPLE (TAXABLE): An agency gives an employee an electronic pager plus pays each employee's monthly pager service charge for all its employees. The agency does not maintain a policy prohibiting personal use nor audit pager billing records. The Fair Market Value (FMV) of the pager (one time value) plus the monthly pager service charge (on going) are taxable,

reportable income. The FMV equals the amount employees would pay for the pager and pager service, not necessarily the cost that the agency paid for pagers/pager service.

EXAMPLE (NON-TAXABLE): An employee uses her own cellular phone for business and personal use. Each month, the employee submits her cellular phone bill to the agency for reimbursement. The submitted bill, including personal calls, is paid in full. The total reimbursement is no longer reportable, taxable income per IRS Notice 2011-72, 2011-93 and Publication 15-B, Sec. 5.

Section N 132.3: REPORTING INSTRUCTIONS (Revised 01/06)

Agencies/campuses should use form **STD. 671**, Miscellaneous Payroll/Leave Action or **Form 672**, Time and Attendance to report taxable electronic device reimbursements/payments via the PIP System. Refer to PPM Section G 150 for completion instructions.

Electronic Device reimbursements/payments/values may also be reported to SCO via forms **STD. 676P** (reimbursements/payments) and **STD. 676V** (values) per PPM Section N 172.2. When using form STD. 676P or 676V, identify these payments/values as:

ITEM CODE	ITEM DESCRIPTION
EL	ELECTRONIC DEVICES

Section N 132.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting of taxable Electronic Devices value.

Section N132.5: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 133: ENTERTAINMENT EXPENSES (CSU ONLY) (Revised 07/07)

Entertainment Expense reimbursements/payments to employees are reportable/taxable income.

REFERENCES

IRS Code	274(d)
IRS Regulations	1.62-2

IRS Publication	463 - Travel, Entertainment, Gift and Car Expenses
CSU Technical Memorandum	HR Letter 98-07

Section N 133.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**NO***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 133.2: GENERAL INFORMATION (Revised 07/07)

The monthly entertainment allowance provided CSU executives is governed by IRS Accountable Plan rules. The allowance is taxable unless all of following criteria are met:

- **Business Connection**: Entertainment allowance expenses must be for tax deductible, ordinary and necessary business expenses directly related to or associated with the active university's business. Other expenses are also covered wherein the executive need not show that expenses are directly related to or associated with the university's business. These exceptions are addressed in IRS Publication 463.
- **Substantiation**: Executives must submit documentary evidence monthly to the designated business officer to substantiate the amount, time, place, and business purpose of the entertainment expenses. Documentary evidence includes receipts, canceled checks, bills, etc., for all entertainment expense allowance amounts received.
- **Returning Amounts in Excess of Expenses**: Executives shall return to the designated business officer any monthly amounts received in excess of those substantiated each month. The excess amount must be returned no later than 120 calendar days after the allowance was paid.

NOTE: Per **IRS Reg. 1.62-2 (h)(2)** failure to meet any of the three criteria listed above results in taxable and reportable compensation. For example, an entertainment expense allowance is provided under the above accountable plan. However if an executive does not return excess amounts within the 120 day schedule, the excess amount is treated by federal and state tax authorities as taxable/reportable compensation. The campus must report this amount to the State Controller's Office as taxable income. If an employee substantiates and returns excess advances after employer has treated amounts as wages, the employer is not required to return any withholdings or treat amounts as non-taxable.

Section N 133.3: REPORTING INSTRUCTIONS (Revised 07/07)

Agencies/campuses should use form **STD. 671**, Miscellaneous Payroll/Leave Action or **Form 672**, Time and Attendance to report taxable entertainment allowance payments via the PIP System. Refer to PPM Section G 150 for completion instructions.

Entertainment Allowances may also be reported to SCO via form **STD. 676P** per PPM Section N 172.2. When using form STD. 676P, identify these payments as:

ITEM CODE	ITEM DESCRIPTION
EE	ENTERTAINMENT ALLOWANCE

Section N 133.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart VI for reporting of taxable Entertainment Expenses provided to employees.

Section N 133.5: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 135: HOUSING (Revised 01/02)

Employer provided housing benefits are generally reportable/taxable income. Housing benefits may be excluded from gross income if the housing is a Working Condition Fringe Benefit or when reimbursed as Employee Business Expense per the following exclusion requirements:

HOUSING AS A WORKING CONDITION FRINGE BENEFIT - IRS Regulation, Section 119-1(b)

The value of employer-provided Housing is excluded from taxation as a working condition fringe benefit when the Housing is provided:

1. On the business premises of the employer;
2. For the convenience of the employer, **and**
3. As a condition of employment.

1. On the business premises of the employer

The business premises of the employer mean the place where the employee performs a significant portion of his/her duties. To meet this requirement, the Housing must be on the premises, not near the premises.

2. For the convenience of the employer

The convenience of the employer means that **the employer has a substantial non-compensatory business reason to provide the Housing to the employee**. **This**

determination is made on a case-by-case basis. For example, Housing furnished to an employee so that the employee is routinely available for night emergency duty may qualify Housing as furnished for substantial, non-compensatory business reasons.

3. **As a condition of employment**

   A condition of employment means that the employee is required to accept the Housing to properly perform the duties of the job. It is not sufficient that an employee is compelled by the employer to live on the premises. He/she must be required to do so because **the on-site housing is indispensable to the proper discharge of assigned duties**.

   An employer cannot simply declare that housing is furnished as a condition of employment. An employer must demonstrate and document the need for an employee to live on the business premises to satisfy the condition of employment test.

   The value of Housing not meeting all three (3) criteria is regulated by IRS Code Section 61 that states: "Gross income means all income from whatever source derived including...fringe benefits." IRS Regulation Section 1.61-21(b) requires the Fair Market Value, less any amount paid by the recipient, be included in the employee's gross income. California law defines gross income the same as the Federal law.

HOUSING AS A REIMBURSED EMPLOYEE BUSINESS EXPENSE -- IRS Temporary Regulation, Section 62

Employer-provided Housing reimbursements are excluded as a reimbursed Employee Business Expense from the employee's gross income under an Accountable Plan. To qualify as an Accountable Plan, an employer's plan must meet all three requirements:

1. Business connection;
2. 2Substantiation; and
3. Return of amounts in excess of expenses.

Section N 135.1: EXECUTIVE HOUSING EXPENSE (CSU) (Revised 01/12)

The value of CSU's Executive Housing not meeting all Working Condition Fringe Benefit criteria and all Executive Housing Expense reimbursements, are reportable/taxable income.

REFERENCES (Revised 01/12)

IR Code	61, 62, 119
IRS Regulations	1.61.21(b), 1.119 -1(b)
CSU Technical Letter	HR/Salary 2007-22

Section N 135.1.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**NO***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 135.1.2: GENERAL INFORMATION (Revised 07/07)

CSU maintains housing on several campuses for presidents. This housing is typically provided as a Working Condition Fringe Benefit. CSU also provides Executive Housing Expense reimbursement for other presidents and executives. These reimbursements, are paid under a non-accountable plan and represent taxable, reportable income.
The value of Executive Housing not meeting IRS criteria and all Executive Housing Expense reimbursements are reportable/taxable income.

Section N 135.1.3: REPORTING INSTRUCTIONS (Revised 01/06)

Executive Housing reimbursements/values may also be reported to SCO via forms **STD. 676P** (reimbursements) and **STD. 676V** (values) per PPM Section N 172.2. When using form STD. 676P or 676V, identify these reimbursements/values as:

ITEM CODE	ITEM DESCRIPTION
HE	EXECUTIVE HOUSING EXPENSE

Section N 135.1.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart VI for reporting Executive Housing and reimbursements.

Section N 135.1.5: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 135.2: HOUSING REIMBURSEMENTS (Revised 10/07)

Housing Reimbursements are reportable/taxable income.

EXCEPTION: Housing provided by employers as a Working Condition Fringe Benefit or reimbursed as an Employee Business Expense per IRS regulations (refer to PPM Section N 135) is nontaxable.

REFERENCES

IRS Codes	61, 62 and 119
IRS Regulations	1.61-21(b),1.119 – 1(b)

Section N 135.2.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 135.2.2: GENERAL INFORMATION (Revised 01/02)

The following employer Housing reimbursements are reportable/taxable income: reimbursements to employees for housing allowances, payments to locate housing; rent or lease payments to third parties (paying rents); paying rental taxes (County Possessory Interest Tax); providing temporary housing off-site of the business premises while on-site housing is repaired; etc.

EXAMPLE (TAXABLE): A CSU employee was provided on campus housing as a working condition fringe benefit. However, this housing is being refurbished. While the housing is refurbished, the employee paid rent for an apartment several miles from the campus. The campus reimburses the rent. The reimbursement is reportable/taxable income.

EXAMPLE (TAXABLE): A Civil Service employee was provided housing on the business premises as a working condition fringe benefit. However, this housing is being refurbished. While the housing is refurbished, the **employer** paid for an apartment off-site of the business premises. The rent payment was made directly to the apartment (third party). The payment value is reportable/taxable income.

Section N 135.2.3: REPORTING INSTRUCTIONS (Revised 01/ 06)

Housing reimbursements/values (**employer paid rents to third parties**) may also be reported to SCO via forms **STD. 676P** (reimbursements) and **STD. 676V** (values) per PPM Section N 172.2. When using form STD. 676P or 676V, identify these reimbursements/values as:

ITEM CODE	ITEM DESCRIPTION
HR	HOUSING REIMBURSEMENTS

Section N 135.2.4: FORM W- 2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting Housing Reimbursements.

Section N 135.2.5: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 135.3: EMPLOYER-PROVIDED HOUSING (Revised 07/02)

The difference between the Fair Market Rental Value (FMRV) of employer-provided Housing and employee paid rent for that housing (rent lower than FMRV) is reportable taxable income.

REFERENCES

IRS Code	61, 62 and 119
IRS Regulations	1.61-21(b), 1.119-1(b)
California Code of Regulations	Title 2, Article 3, Sections 599.642 and 599.646

Section N 135.3.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 135.3.2: GENERAL INFORMATION (Revised 07/07)

The difference between the Fair Market Rental Value (FMRV) of employer housing and employee paid rent (when lower than FMRV) is reportable/taxable income. **Employer owned**

housing units include: houses, apartments, dormitories, mobile homes, trailers, mobile home pads, trailer spaces, etc. Housing also includes utilities (when applicable).

EXCEPTION: IRC 119(c) provides a special Working Condition Fringe Benefit rule for educational institutions. Qualified campus housing furnished to employees is **not taxable** when **all** the following criteria are met: Housing is located on or near the campus (per IRS, "near the campus" means geographically proximate-immediately adjacent to); the employee pays rent of at least 5% of appraised FMRV; and/or the rent charged the employee is comparable to rent charged by the institution to students or non-employees.

This housing is taxable if the employee pays no rent or pays rent that is less than 5% or comparable rent. When no rent is paid, the lesser amount of 5% of the appraised value or comparable rent is reportable/taxable income. When the employee pays less than the 5% or comparable rent, the difference between what is paid and the 5% or comparable rent is reportable/taxable income.

IRS Regulation 1.61-21(b) requires the FMRV, less the amount paid by recipient, be included in an employee's gross income. **The FMRV is the amount that an individual would pay for the benefit in an arm's length transaction. FMRV equals the amount for which the property would rent in an "open" market between a willing lessor and lessee**.

FMRV determinations are delegated to each department/campus who may use the services of a local appraiser or real estate service. **FMRV determination must consider California Code of Regulation, Title 2, Article 3, Sections 599.62 and 599.646, criteria and FMRV definition per IRS Regulation Section 1.61-21(b). FMRV must be determined annually. Although a new appraisal is not required annually, the employer must review housing appraisals each year to insure that the FMRVs are valid**.

<u>EXAMPLE (NON-TAXABLE)</u>: An employee is hired by a campus. As a condition of employment, the employee is required to reside in a campus-owned house. The house is on the business premises and is provided for the convenience of the employer, (substantial, non-compensatory business reasons) not the employee. All three conditions of IRS Regulation 1.119-1(b) are met. The value of the Housing is a non-reportable, non-taxable fringe benefit.

<u>EXAMPLE (TAXABLE)</u>: An employee working for a campus is provided a house located several miles from the campus. The employee has the option of living in the house. The conditions of IRS Regulation Section 1.119-1(b) are not met. The FMRV for the house, $400/month, is reportable, taxable income.

<u>EXAMPLE (TAXABLE)</u>: An employee working for an agency is renting a house owned by and on the premises of the agency. Housing provided is for the employee's convenience. The employee pays $225/month rent. FMRV for the house is $400/month. The FMRV ($400), less amount paid by the employee ($225), is reportable, taxable income ($175).

<u>EXAMPLE (TAXABLE)</u>: An employee working for an agency rents a house owned by the same agency. FMRV for the house is $500.00/month. The employee's Bargaining Unit contract allows the employee a 10% rent reduction. As a result, the employee pays

$450.00/per month. The FMRV ($500), less amount paid by the employee ($450), is reportable taxable income ($50).

EXAMPLE (TAXABLE): An employee working for an agency rents a house owned by that agency. FMRV for the house is $500.00/month. The employee's Bargaining Unit contract allows the employee to credit accrued CTO hours up to a net amount equivalent to the housing rental. The employee does not pay any money for the monthly rent. The FMRV ($500), less amount paid by employee ($0), is reportable, taxable income ($500).

Section N 135.3.3: REPORTING INSTRUCTIONS (Revised 01/06)

Housing values may also be reported to SCO via form **STD. 676V** per PPM Section N 172.2. When using form STD. 676V, identify these values as:

ITEM CODE	ITEM DESCRIPTION
HV	HOUSING – VALUE OF STATE HOUSING

Section N 135.3.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting Housing Rental Values.

Section N135.3.5: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 136: POSSESSORY INTEREST TAX (New 12/07)

The value of Possessory Interest Tax paid for housing is reportable taxable income.

REFRENCES

IRS Code	119
IRS Regulation	1.61-21(b)
Revenue and Tax Code	104, 107, and 107.6

Section N 136.1: APPLICABLE TAXES

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

*Only Civil Service SEIU Rank and file employees are subject to SDI.

Section N 136.2: GENERAL INFORMATION

The California Constitution exempts state owned property from real estate taxes except when that property is used either by employees or private businesses for private use. Private use by an individual or private business other than the government entity itself can be taxed by the county assessor as possessory interest.

Revenue and Tax Code section 104, 107, and 107.6 authorizes the local county assessor's office to annually assess all taxable property in his/her county, except for State-assessed property, to the person owning, claiming, possessing (leasing/renting), or controlling it on January 1. The assessment includes government housing occupied by employees as their residences, cabins on Forest Service land, marinas, recreation areas, etc.

Section N 136.3: REPORTING INSTRUCTIONS

Possessory Interest Tax may be reported to SCO via form STD. 676P per PPM Section N 172.2. When using form STD. 676P, identify these reimbursements as:

ITEM CODE	ITEM DESCRIPTION
HT	POSSESSORY INTEREST TAX

Section N 136.4: FORM W-2 REPORTING

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting Possessory Interest Tax.

Section N 136.5: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 137: LIFE INSURANCE (Revised 01/02)

Section N 137.1: GROUP TERM LIFE INSURANCE (LEGISLATORS) (Revised 07/07)

Employer-paid Group Term Life Insurance amounts for benefits exceeding $50,000 are reportable/taxable income.

REFERENCES

IRS Code	79
IRS Regulations	1.79 -1, 1.79 -3
Public Law	100 – 303

Section N 137.1.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
NO	**YES**	**NO**	**NO***

*Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 137.1.2: GENERAL INFORMATION (Revised 01/06)

The imputed value of Group Term Life Insurance provided to members of the Legislature exceeding $50,000 is reportable as Federal, Social Security/Medicare and State wages. Social Security/Medicare taxes must be withheld. Group-Term Life Insurance, however, is not subject to Federal and State Income Tax withholding. Values for reporting Group Term Life Insurance are outlined in **IRS Regulation 1.79-3**.

Group Term Life Insurance values are reported to SCO via form **STD. 676V** per PPM Section N 172.2. When using form STD. 676V, identify these values as:

ITEM CODE	ITEM DESCRIPTION
LL	LL LIFE INSURANCE – GROUP TERM LIFE INSURANCE (Legislators)

Section N 137.1.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart IV for reporting Group Term Life Insurance amounts.

Section N 137.1.5: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 137.2: GROUP TERM LIFE INSURANCE (CSU) (Revised 01/11)

CSU-Paid Life Insurance amounts for benefits exceeding $50,000 are reportable/taxable income.

REFERENCES

IRS Code	79
IRS Regulations	1.79-1, 1.79-3
Public Law	100-303
CSU Technical Memorandum	HR/Benefits 2010-12

Section N 137.2.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
NO	**YES**	**NO**	**NO***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 137.2.2: GENERAL INFORMATION (Revised 01/02)

The imputed value of CSU-Paid Life Insurance provided to CSU MPP and Executive employees (M80 and M98) exceeding $50,000 is reportable as Federal, Social Security/Medicare and State wages. Social Security/Medicare taxes must be withheld. CSU-Paid Life Insurance, however, is not subject to Federal and State Income Tax withholding. Values for reporting Group Term Life Insurance are outlined in **IRS Regulation 1.79-3**.

The taxable value of CSU-Paid Life Insurance is identified by SCO via an automated process which creates one-time Social Security (code 097) and/or Medicare (code 092) adjustment transactions against Master Payroll in the pay period following the month the CSU-Paid Life Insurance deduction was withheld for active employees. An Agency Collection Accounts Receivable is generated for employees who have since separated or are on leave of absence.

Section N 137.2.3: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart IV for reporting CSU Paid Life Insurance amounts.

Section N137.2.4: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 139: LOAN PROGRAMS (Revised 01/02)

Forgiven employer-paid loan and interest forgiven for loans greater than $10,000 are reportable/taxable income.

Section N 139.1: CHANCELLOR'S DOCTORAL INCENTIVE PROGRAM (Revised 05/13)

CSU offers two loan programs that discharge indebtedness (i.e., forgive the loan) in exchange for specific lengths of employment. These loan benefits are the Forgivable Loan and Doctoral Incentive programs.

REFERENCES (Revised 05/13)

IRS Code	Section 61(a)(12)
IRS Publication	15-A (5) Employer's Supplemental Tax Guide
AB 364 Chapter 228, Stats 1997	
CSU Technical Letter	HR Letter 2011-10

Section N 139.1.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**NO**	**NO***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 139.1.2: GENERAL INFORMATION (Revised 07/07)

IR Code Section 61(a)(12) provides that gross income includes income from the discharge of indebtedness. California law (AB 364) excluded CSU's Forgivable Loan Program amounts from income.

Section N 139.1.3: TAXABILITY (Revised 05/13)

Payments discharged or forgiven loan amounts constitute reportable/taxable income. Interest forgiven for loans greater than $10,000 is taxable income. If an employer lends an employee more than $10,000 at an interest rate less than the current applicable Federal rate

(AFR), the difference between the interest paid and the interest that would be paid under the AFR is considered additional compensation to the employee. This additional compensation to the employee is subject to social security, Medicare and FUTA taxes, but not to federal income tax withholding. Include it in compensation on Form W-2 (or Form 1099-MISC for an independent contractor). See Publication 15-A (5).

This applies whether the employer makes direct payment to the employee, an education institution, a financial institution or credits an employee's loan account. Discharged loan amounts in any of these instances must be reported to SCO.

NOTE: Interest forgiven for loans less than $10,000 is not taxable income.

Section N 139.1.4: REPORTING INSTRUCTIONS (Revised 03/10)

Discharged values are reported to SCO via form **STD. 676V** per PPM Section N 172.2. When using form STD. 676V, identify these values as:

ITEM CODE	ITEM DESCRIPTION
LF	LOAN PROGRAM – FORGIVEABLE/DOCTORAL INCENTIVE PROGRAM

NOTE: DISCHARGED VALUES MUST BE REPORTED EACH TIME AN EMPLOYEE IS PAID AND/OR THE LOAN ACCOUNT CREDITED.

EXAMPLE: John Doe participates in CSU's Forgivable Loan/Doctoral Incentive Program.
John received a loan of $5000 for educational purposes in 2008. This amount was <u>not</u> reported in 2008. In July, the employing campus credited $500 towards John's loan.
$500 is taxable and reportable income in 2008 and must be reported to SCO.

To exclude from California State Wage reporting, leave the "State Code," Column 8 on the form STD. 676V **blank**.

Section N 139.1.5: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart II for reporting Employer-Paid loan amounts discharged or forgiven.

Section N 139.1.6: SPECIAL INSTRUCTIONS (Revised 07/07)

Form W-2, Wage and Tax Statement, reports CSU's FLP as Federal and Social Security/Medicare Wages, but not as State Wages. **The Franchise Tax Board requires that employees reconcile differences between Federal and State wages via their Income Tax Return**.

Section N 139.1.7: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 139.2: CS FORGIVABLE LOAN PROGRAMS (Revised 05/13)

The Department of Personnel Administration offers two loan programs that discharge indebtedness (i.e., forgive the loan) in exchange for specific lengths of employment. These loan benefits are the Loan Forgiveness and Loan Assumption programs.

REFERENCES (Revised 05/13)

IR Code	61(a)(12)
IRS Publication	15 - A (5) Employer's Supplemental Tax Guide

Section N 139.2.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 139.2.2: GENERAL INFORMATION (Revised 01/02)

IR Code Section 61(a)(12) provides that gross income includes income from the discharge of indebtedness. California law defines gross income the same as the Federal law.

Section N 139.2.3: TAXABILITY (Revised 05/13)

Payments discharged or forgiven loan amounts are reportable/taxable income.
Interest forgiven for loans greater than $10,000 is taxable income. If an employer lends an employee more than $10,000 at an interest rate less than the current applicable Federal rate (AFR), the difference between the interest paid and the interest that would be paid under the AFR is considered additional compensation to the employee. This additional compensation to the employee is subject to social security, Medicare and FUTA taxes, but not to federal income tax withholding. Include it in compensation on Form W-2 (or Form 1099-MISC for an independent contractor). See Publication 15-A (5).

This applies whether the employer makes direct payment to the employee, an educational institution, a financial institution or credits an employee's loan account. Discharged loan amounts in any of these instances must be reported to SCO.

NOTE: Interest forgiven for loans less than $10,000 is not taxable income.

Section N 139.2.4: REPORTING INSTRUCTIONS (Revised 04/11)

Discharged values are reported to SCO via form **STD. 676V** per PPM Section N 172.2. When using form STD. 676V, identify these values as:

ITEM CODE	ITEM DESCRIPTION
LA	LOAN PROGRAM – LOAN ASSUMPTION PROGRAM
LP	LOAN PROGRAM – LOAN FORGIVENESS PROGRAM

NOTE: DISCHARGED VALUES MUST BE REPORTED EACH TIME AN EMPLOYEE IS PAID AND/OR THE LOAN ACCOUNT CREDITED.

EXAMPLE: AB Employee participates in CS's Loan Program. AB received a loan of $5,000 for educational purposes in 2009. This amount was not reported to IRS in 2009. In July 2010, the employing agency credited $500 towards AB's loan. $500 is taxable and reportable income in 2010 and must be reported to SCO via form STD. 676V.

Section N 139.2.5: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting Employer-Paid loan amounts discharged or forgiven.

Section N 139.3: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 141: LONG TERM TRAVEL (Revised 07/07)

Long Term Travel-Indefinite reimbursements are reportable/taxable income.
Long Term Travel-Temporary reimbursements are non-reportable, non-taxable income.

REFERENCES

IRS Code	162(a)(2)
IRS Revenue Ruling	93-86
IRS Revenue Notice	2007-47

Section N 141.1: APPLICABLE TAXES (Revised 09/02)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 141.1.2: GENERAL INFORMATION (Revised 03/03)

When an employee travels away from home on business for extended periods of time, an employer must determine whether the travel is temporary or indefinite. **This decision must be made when the travel is planned and not when it is completed. Indefinite assignments are defined as "employment away in a single location wherein the employment assignment is realistically expected to last or in fact, lasts more than one year**. Travel reimbursements and/or direct payment to third parties by the employer for meals, lodging, mileage, etc. are taxable income to the employee. Please note that the assignment does not have to last one year, rather, if at the time of the assignment it is expected is to last a year, the benefits are taxable for that assignment regardless of the length of the assignment.

Temporary assignments are defined as "employment away from home in a single location wherein the employment is realistically expected and in fact, lasts one year or less. Absent any facts or circumstances indicating otherwise, IRS considers Temporary assignment travel reimbursements for meals, lodging, mileage, etc. issued under an employer's Accountable Plan as non-reportable, non-taxable income. Please note that if an employer initially assigns an employee to a Temporary assignment and later determines that the assignment is now expected to last or will last more than one year, reimbursements are immediately impacted. The previous tax free nature of the benefits under the initial Temporary assignment become immediately taxable thereafter with the employer's new determination.

NOTE: IRS has defined a "single location" as including a major metropolitan area; cities in juxtaposition to one another and locations which straddle county or state lines. These physical situations do not represent "different" locations. Short breaks in assignments do not automatically create a new assignment. IRS and the U.S. Supreme Court have ruled that breaks between assignments up to four-six weeks within a 12 month period do not necessarily terminate a Long Term Travel-Indefinite assignment for tax purpose. Employers are encouraged to provide employees a written disclosure of the taxability both Temporary and Indefinite Travel Assignments prior to employee's actual assignment.

Section N 141.1.3: REPORTING INSTRUCTIONS (Revised 05/08)

Agencies/campuses should use form **STD. 671**, Miscellaneous Payroll/Leave Action, or **Form 672**, Time and Attendance, to report Long Term Travel-Indefinite reimbursements payments via the PIP System. Refer to PPM Section G 150 for completion instructions.

Long Term Travel reimbursements and amounts paid to third party are reported to SCO via forms **STD. 676P** (reimbursements) and **STD. 676V** (payments made to third parties) per PPM Section N 172.2. When using form STD. 676P or 676V, identify these reimbursements/payments as:

ITEM CODE	ITEM DESCRIPTION
ML	MEALS AND LODGING – LONG TERM TRAVEL

For agencies using the California Automated Travel Expense Reimbursement System CalATERS), employees may request reimbursement of Long Term Travel via the CalATERS. For taxable reimbursements paid through the CalATERS, no action is required by agencies as the CalATERS directly interfaces reportable/taxable income with the Non-USPS. For more information regarding the CalATERS, please visit http://www.sco.ca.gov/calaters.html.

Section N 141.1.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting taxable Long Term Travel reimbursements.

Section N141.2: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 143: MEALS - NON-TRAVEL (Revised 01/02)

Meal compensation constitutes reportable/taxable income. Compensation includes: meal allowance payments, value of employer provided meal tickets redeemable at the work site, and value of employer provided meals. When employees have the option of accepting meal payments or in-kind meals and select in-kind meals, these meals are always taxable.

EXCEPTION: Meals defined by IRS as "provided in-kind during the work hours for the employer's convenience, provided for substantial non-compensatory business reasons and provided on the employer's premises" are generally non-reportable/non-taxable.

REFERENCES

IRS Regulations 1.132- 6(d)(2)(i)

Section N 143.1: MEDICAL OFFICER OF THE DAY MEAL (Revised 10/07)

The Department of Personnel Administration authorizes employees assigned Medical Officer of Day (MOD) duty: $8.00 meal allowance, a $6.00 meal ticket, or in the Department of Mental Health (DMH) and Development Services (DDS) a facility prepared meal. DMH employees working at the California Medical Facility are authorized an $8.00 meal allowance. **All MOD meal compensation is taxable income EXCEPT for DMH and DDS employees who may only receive a facility-prepared meal. These in kind meals, provided during work hours for the employer's convenience and for substantial non-compensatory business reasons while on the employer's business premises are non-taxable**.

REFERENCES

IRS Code	119
IRS Regulations	1.119-1(a-c)

Section N 143.2: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 143.2.1: REPORTING INSTRUCTIONS (Revised 01/02)

MOD meal payments are reported to SCO via form **STD. 676P and values of MOD meal tickets and meals** are reported via form STD. 676V per PPM Section N 172.2. When using forms STD. 676P and 676V, identify MOD payments/values:

ITEM CODE	ITEM DESCRIPTION
MP	MEALS AND LODGING PER DIEM

Section N 143.2.2: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart VI for reporting taxable Medical Officer for the Day meal amounts.

Section N 143.3: OVERTIME MEAL COMPENSATION (Revised 10/07)

The value of <u>all</u> Overtime Meal Compensation (including Arduous Meals) is reportable/taxable income.

REFERENCES (Revised 01/02)

IRS Regulations 1.132-6(d)(2)(i)

Section N 143.3.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 143.3.2: GENERAL INFORMATION (Revised 01/02)

Overtime Meal Compensation (OMC) includes: **Overtime Meal Allowance payments; value of Overtime Meal Allowance Tickets and value of overtime meals provided by employer**.

The value of overtime meal tickets varies at institutions having both snack bars and dining rooms. Employees receive meal tickets for use at either an institution's snack bar or dining room **AND** the ticket value is different when redeemed at the snack bar versus the dining room. For tax purposes, the higher ticket value must be reported.

IRS states that the employer paid (provided) and the employee constructively received the higher face value upon the employee's receipt of the meal ticket. The taxable benefit amount is the maximum ticket value the employer provided the employee versus the benefit value the employee received by choosing to eat at the snack bar or dining room.

EXAMPLE: An institution has a snack bar and dining room. The value of an overtime meal ticket used at the snack bar is $7 and $6 for the dining room. Upon receipt of the meal ticket, the employee received $7 taxable benefit regardless if the employee subsequently eats at the snack bar or dining room. IRS states that the employer provided a $7 meal ticket -- $7 is the taxable benefit amount constructively received by the employee.

Section N 143.3.3: PAYMENT METHOD (Revised 01/02)

OMC payments should be issued via the USPS via PIP rather than paid via claim schedule/reported through the Non-USPS. **Do not report OMC payments paid via the USPS on form STD. 676P**.

Section N 143.3.4: REPORTING INSTRUCTIONS (Revised 09/17)

Agencies/campuses should use form **STD. 671**, Miscellaneous Payroll/Leave Action, or **Form 672**, Time and Attendance, to report overtime meal compensation payments via the PIP System. Refer to PPM Section G 150 for completion instructions.

Overtime meal payments/values (**value of overtime meals provided by employer**) may also be reported to SCO via forms **STD. 676P** (payments) and **STD. 676V** (values) per PPM Section N 172.2. When using form STD. 676P or 676V, identify these payments/values as:

ITEM CODE	ITEM DESCRIPTION
OM	OVERTIME MEALS

Section N 143.3.5: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting taxable Overtime Meal Compensation amounts.

Section N 143.4: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 145: MEALS AND LODGING – TRAVEL (Revised 9/17)

Meals and lodging reimbursements for travel are reportable/taxable income when provided under an employer's non-accountable plan and when specific benefits are mandated as taxable income (i.e., Long Term Travel - Indefinite per diem reimbursements). See PPM Section N 141.

NOTE: For example, some Civil Service contracts provide for "exceptions" to the portion of the State's per diem Accountable plan regarding the distance from home and headquarters requirement. Reimbursement for "exceptions" of less than 50 miles must satisfy IRC Section 162(a) and Publication 463 requirements that the employee is traveling away from home in the pursuit of business on a temporary basis. There is no set distance requirement for what constitutes "away from home." The statutory phrase away from home have been interpreted by IRS and the Supreme Court to mean that an employee is required to travel overnight, or long enough to require substantial "sleep or rest."

EXCEPTION: Meals and lodging for travel are non-reportable, non-taxable income when provided under an employer's accountable plan and when specific benefits are excluded from taxation by law (Long Term Travel - Temporary). See PPM Section N 141.

NOTE: Local lodging (not away from tax home) Expense Exception

Local Lodging (not away from tax home) expenses are costs of temporary lodging incurred when an employee is assigned to a temporary work location within the area of the employer's tax home. To be deductible, local lodging expenses must meet a facts and circumstances test under Regs. Sec. 1.162-32(a) or qualify for a safe harbor rule under Regs. Sec. 1.162-32(b). Local lodging expenses paid by an employer on behalf of an employee may be deductible under Section 132 as a working condition fringe benefit if they meet the new tests. Reimbursements for local lodging expenses may be excludable from the employee's income if the expense allowance arrangement qualifies as an accountable plan under Internal Revenue Code (IRC) Section 62(c).

Safe Harbor Test

Under the safe harbor rule, local lodging expenses will be treated as ordinary and necessary expense and excluded from the employee's wages if the following four conditions are met:

1. The lodging is necessary for the individual to participate fully in or be available for a bona fide business meeting, conference, training activity, or other business location;
2. The lodging is for a period that does not exceed five (5) calendar days and does not recur more frequently than once per calendar quarter;
3. If the individual is an employee, the employee's employer requires the employee to remain at the activity or function overnight; and
4. The lodging is not lavish or extravagant under the circumstances and does not provide any significant element or personal pleasure, recreation or benefit.

Facts and Circumstances Test

A local lodging expense does not meet the safe harbor test may still be deductible under Section 162(a) if it is an ordinary and necessary expense paid or incurred in connection with carrying on a taxpayer's trade or business. Some of the factors to consider under this facts and circumstances determination are:

- The local lodging expense must be incurred because of a bonafide condition or requirement of employment imposed by the employer;
- A local lodging expense must be for a business purpose and not primarily for a social or personal benefit to the employee;
- Local lodging must not be considered lavish or extravagant under the circumstances and should not provide a significant element of personal pleasure, recreation or benefit;
- Employer is not paying or reimbursing expenses primarily to provide a social or personal benefit to the employee.

This regulation applies to expenses paid or incurred after September 30, 2014. Please see Internal Revenue Bulletin 2014-43 for more information, including several samples on determining the deductibility of local lodging expenses that do not meet the safe harbor test.

Short-Term Rental: Short-Term Rental is residential property that is rented to a visitor for fewer than 30 days through a centralized online platform. AirBnb is an example of a short-term rental company.

If you use a non-traditional lodging site such as AirBnb.com, use the following instructions:

1. Combine all fees in the per diem rate before booking.
2. Complete a STD 255C (Excess Lodging Rate Request Form) if the total nightly cost of the room exceeds the applicable state rate.
    a. Submit the form to your accounting office for approval at least 10 days before the trip takes place.
3. Obtain an itemized lodging receipt from the lodging vendor.
4. Combine and report the total short-term rental costs, such as:
    a. Combine the accommodations total, service fees, and cleaning fees to determine the total rental costs.
    b. Divide the total rental costs by the number of nights to calculate the daily room rate.
5. Report the daily taxes separately.

Example:
Reservation short-term rental charges for four (4) nights:

1. Accommodations: $360 ($90 per night x 4 nights)
2. Cleaning fee: $40
3. Service fee: $66
4. Total rental costs: $466 ($360+40+66 = $466)
5. Divide the total rental costs of $466 by 4 nights to determine the daily room rate of $116.50 per night.
    a. Daily room rate: $116.50 ($466 divided by 4 = $116.50)

REFERENCES

IRS Code	62(c), 119, 132(e), 162(a) and 274
IRS Regulations	1.61 -21, 119-1(a) – (c), and 31.3401(a) – 1(b)(9)
IRS Publication	463 -Travel, Entertainment, Gift and Car Expenses
DPA PML	2005 – 021 – Third Party Vendor Requirements
CalHR PML 2015-039	Travel/Relocation Programs – AB229 Travel Reimbursement (Transportation Network Company or Short-Term Rental)
IRS Code	162(a)
Revenue Ruling	75-170
IRS Publication	5137, Fringe Benefit Guide, January 2014
IRS Regulation	137589-07
IRS Proposed Regulation	1.162-31
Treasury Decision (TD)	9696
IRS Regulation	Sec.1.162-32(a)(b)
Internal Revenue Bulletin	2014-43

Reporting Instructions
Local Meals and Local Lodging Reimbursements not meeting the safe harbor and facts and circumstances tests and Accountable plan requirements must be reported to SCO via form STD. 676P per PPM Section N172.2. When using STD. 676P, identify these payments as:

ITEM CODE	ITEM DESCRIPTION
MS	LOCAL MEALS
MT	LOCAL LODGING

For agencies using the California Automated Travel Expense Reimbursement System (CalATERS), employees may request reimbursement of Local Meals and Local Lodging Less Than 50 miles via the CalATERS. For taxable reimbursements paid through the CalATERS, no action is required by agencies as the CalATERS directly interfaces reportable/taxable income with the NON-USPS. For more information regarding the CalATERS, please visit http://www.sco.ca.gov/calaters.html.

Section N 145.1: APPLICABLE TAXES (Revised 07/07)

NOTE: The following apply to: meals for travel less than 24 hours without overnight lodging; paid non-receipted lodging; and all per diem reimbursements issued under non-accountable employer plans.

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 145.1.2: MEALS LESS THAN 24 HRS W/O LODGING (Revised 01/02)

Per IRC 162(a), "daily" meal reimbursements by an employer to an employee traveling away from home for 24 hours or less wherein neither an overnight stay nor the "substantial sleep and rest rule" provisions were met, are reportable/taxable income. Daily meal reimbursements (even when paid under an Accountable plan) do not qualify as "business expenses." **These reimbursements are for "personal expenses" which fail to meet the business connection criteria of an Accountable plan. Day trips do not meet IRS' travel definition of "away from home" and thus, employer reimbursement of personal meal expenses is taxable**.

EXCEPTION: Meal reimbursements for travel for less than 24 hours are nontaxable when **paid under Accountable plan provisions and travel requires an overnight stay (lodging)**,

OR

Travel satisfies ALL three Sleep/Rest Rule provisions required by IRS Announcement 90-127: the trip lasts substantially longer than an ordinary day's work,

AND

The employee cannot reasonably be expected to make the trip without being released from duty for sufficient time to obtain substantial sleep/rest. NOTE: the IRS has ruled that brief rest periods, few hours or less, do not satisfy the definition of substantial sleep/rest.

AND

The Sleep/Rest Rule generally applies to employment occupations, by the nature of the work performed (truck drivers, airline pilots and other transportation jobs entailing the safe operation of equipment), which require limited work shifts, followed by a substantial sleep/rest period, before an employee is allowed to begin a new work shift or continue a trip.

EXAMPLE (TAXABLE): An employee drives from Sacramento to San Francisco leaving at 5:00 a.m. and returning at 6:00 p.m. The employee is entitled, under the employer's (accountable or non-accountable) reimbursement plan, to reimbursement for breakfast. Since the employee did not require an overnight stay nor were the Sleep/Rest Rule provisions satisfied, the reimbursement is taxable and reportable income.

EXAMPLE (TAXABLE): An employee flies from Los Angeles to San Francisco, leaving at noon and returning at 10:00 p.m. The employee is entitled, under the employer's (accountable or non-accountable) reimbursement plan, to reimbursement for dinner. Since the employee did not require an overnight stay nor were the Sleep/Rest Rule provisions satisfied, the reimbursement is taxable and reportable income.

EXAMPLE (NON-TAXABLE): An employee flies from San Diego to Sacramento leaving at 4:00 p.m., spending the night at a hotel and returning to San Diego the next day at 10:30 a.m. The employee is entitled, under the employer's accountable reimbursement plan, to reimbursement for dinner and breakfast. Although the trip was less than 24 hours, because an overnight stay was required, the dinner and breakfast reimbursements are non-taxable, non-reportable income.

EXAMPLE (NON-TAXABLE): An employee, a truck driver, is scheduled for a round trip run between Los Angeles and Sacramento. The employee leaves Los Angeles at 4:00 a.m. and returns to Los Angeles at 11:00 p.m. The employer requires the employee to secure four hours of rest in Sacramento before beginning the return portion of the trip. The employee is entitled, under the employer's accountable reimbursement plan, to reimbursement for breakfast and dinner. Because the Sleep/Rest Rule provisions were satisfied, the breakfast and dinner reimbursements are non-taxable, non-reportable income.

Section N 145.1.3: NON-RECEIPTED LODGING (Revised 01/02)

Employer paid reimbursement for non-receipted lodging is reportable/taxable income per **IRS Regulation 1.274-5T(c)(2)(iii)**.

Section N 145.1.4: PER DIEMS (Revised 09/17)

A per diem allowance is a fixed amount of daily reimbursement an employer gives an employee for lodging, meals, and incidental expenses when an employee is away from home on business.

In order for a reimbursement of an expense for business travel to be excludable from income, including meals and lodging, an employee must travel “away from home” in the pursuit of business on a temporary basis.

Employer per diem reimbursements are reportable/taxable income when issued under Non-accountable plans and also when reimbursements issued under an Accountable plan requirement fail to satisfy the Accountable plan requirements (i.e., return of excess advanced amounts).

NOTE: For example, some Civil Service contracts provide for "exceptions" to the State per diem Accountable plan requirements regarding travel 50 miles or more from home and headquarters. Reimbursement for "exceptions" of less than 50 miles must satisfy IRC Section 162(a) and Publication 463 requirements that the employee is traveling away from home in the pursuit of business on a temporary basis. There is no set distance requirement for what constitutes “away from home.” The statutory phrase “away from home” have been interpreted by IRS and the Supreme Court to mean that an employee is required to travel overnight or long enough to require substantial “sleep or rest.”

Employer per diem reimbursements are non-reportable, non-taxable income when issued under Accountable plans. The State maintains separate Accountable per diem plans for Civil Service, CSU, Military Department, etc. Regular travel reimbursements issued under and meeting the Accountable plan requirements are non-reportable, non-taxable income. Please refer to Long Term Travel in PPM Section N 141 regarding per diem reimbursements issued for extended travel.

Section N 145.1.5: REPORTING INSTRUCTIONS (Revised 01/06)

Meal Reimbursements for less than 24 hour travel, non-receipted lodging payments and per diem reimbursements not meeting Accountable Plan requirements must be reported to SCO via form **STD. 676P** per PPM Section N 172.2. When using form STD. 676P, identify these payments as:

ITEM CODE	ITEM DESCRIPTION
MP	MEALS AND LODGING-PER DIEM

For agencies using the California Automated Travel Expense Reimbursement System (CalATERS), employees may request reimbursement of Meals Less Than 24 Hours w/o Lodging and Non-Receipted Lodging via the CalATERS. For taxable reimbursements paid through the CalATERS, no action is required by agencies as the CalATERS directly interfaces reportable/taxable income with the Non-USPS. For more information regarding the CalATERS, please visit http://www.sco.ca.gov/calaters.html.

Section N 145.1.6: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart VI for reporting taxable Meal and Per Diem reimbursements.

Section N 145.1.7: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 147: MOVING EXPENSES (Revised 05/13)

Section N 147.1: MOVING/RELOCATION EXPENSES (Revised 03/18)

Suspension of Qualified Moving Expense Reimbursements

Section 11048 of new tax legislation (P.L. 115-97) suspends the exclusion for qualified moving expense reimbursements from employee's income for tax years beginning after December 31, 2017, and before January 1, 2026. All such reimbursements are now taxable under the new law. However, the exclusion is still available in the case of a member of the U.S. Armed Forces on active duty who moves because of a permanent change of station. The exclusion applies only to reimbursement of moving expense that the member could deduct if he or she had paid or incurred them without reimbursement.

NEW FOR 2018 FORM W-2 WAGE AND TAX STATEMENT

Qualified moving expense reimbursements paid directly to a member of the U. S. Armed Forces (not included in box 1, 3, or 5 by an employer are reported only in box 12 of Form W-2 with code P).

The following provisions are fully restored beginning January 1, 2026.

Voluntary relocation and non-qualified moving expenses (as defined by the IRS) are taxable, reportable income. Only Qualified moving expenses denoted by IRS which are paid under an Accountable plan **AND** which meet the "Time" and "Distance" tests are non-taxable. **All moving relocation expense reimbursements paid directly to employees are reportable on Form W-2**.

NOTE: CalHR's Hardship Transfer program permits moves/relocations based on "personal and voluntary" versus "business required" reasons. All reimbursements to employees under this program are taxable, reportable income.

REFERENCES (Revised 03/18)

IRS Code	82,132(a)(6) and (g), 217
IRS Publication	15-B - Employer's Tax Guide to Fringe Benefits 521- Moving Expenses
IRS Announcement	2012 - 01
DPA PML	2011-050
CALHR PML	2012-039
CALHR PML	2013-043
IRS Announcement	IR-2012-95
IRS Notice	2012-72 superseded by IRS Notice 2013-80
IRS Announcement	IR-2013-95
IRS Announcement	JR 2014-114
IRS Announcement	IR 2015-137
IRS Announcement	IR 2016-169
IRS Announcement	IR-2017-204
IRS Notice	2014-79
IRS Notice	2016-1
IRS Notice	2016-79
IRS Notice	2018-03
Internal Rev. Bulletin	2018-2
CalHR PML	2014-049
CalHR PML	2015-041
CalHR PML	2016-010
Pub. L. No. 115-97	2017 Federal Tax Cuts and Jobs Act (TCJA) Section 11048

Section N 147.1.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 147.1.2: GENERAL INFORMATION (Revised 09/02)

Moving Expense benefits are divided into two tax categories for determining taxability: non-qualified and qualified. **The following non-qualified Moving Expenses are always considered reportable/taxable income**:

- storage more than 30 consecutive days after moving out of residence
- all meals connected with the move
- pre-move house hunting trips
- temporary living expenses

- sale or purchase of a residence, and
- leases, unexpired or new

The following qualified Moving Expenses are always considered non-taxable income when Federal Time and Distance tests are met **AND** if the employer's Moving Expense plan meets the requirements of an Accountable Plan.

NOTE: CalHR's Hardship Transfer Program **DOES NOT** meet Accountable Plan Requirements.

- reasonable costs of moving the employee's household goods and personal effects from the employee's former residence to the new residence, and
- the reasonable costs of travel and lodging expenses incurred from the former residence to the new one by the shortest/most direct route

NOTE: Failure to satisfy either the Time or Distance Tests results in all employee reimbursements for a work related move to be taxable income to the employee.

Time Test

The employee's full-time employment status must be for 39 weeks during the 12 months immediately following the move. **The time test can be waived by the employer due to death, disability or involuntary separation (other than willful misconduct) or if the employee is transferred for the employer's benefit**.

Distance Test

Moving Expense satisfies the distance test if the employee's move to a new headquarters is at least 50 miles farther from the employee's former residence than the employee's former residence was from the old headquarters.

Example: The employee's normal commute from the old headquarters to former residence was 15 miles. The employee's normal commute from the new headquarters to the employee's old residence must be a minimum of 65 miles to satisfy the distance test.

Qualified Moving Expense payments paid directly to a third party on behalf of the employee (e.g., to a moving company) are no longer reportable.

Accountable Plans

Qualified Moving Expense is subject to Accountable Plan rules governing Employee Business Expenses. See PPM Section N 120 for discussion of Accountable Plan. **All State Moving Expense Plans** - CaHR authorized Civil Service (except Hardship Transfers), California State University, Military Department and Judicial Council - meet the Accountable Plan provisions.

Section N 147.1.3: REPORTING INSTRUCTIONS (Revised 01/02)

Moving Expense amounts are reported to SCO via either form **STD. 675** or **STD. 676P** per PPM Section N 172.1 and 172.2.

Section N 147.1.4: FORM STD. 675 (Revised 03/18)

Report via form STD. 675 if you are withholding Federal and State Income Tax amounts from amounts reimbursed to the employee. **Agencies/campuses may withhold only Federal/State income tax amounts from Moving Expense reimbursements**.

Applicable State Disability Insurance, Social Security and Medicare withholding (both the employer and employee shares) must be withheld by SCO from a subsequent regular warrant.

The example below is only valid for tax year beginning January 1, 2026. For tax years beginning after December 31, 2017, and before January 1, 2026, the new tax law, Tax Cuts and Jobs Act (Section 11048) suspends the exclusion from gross income of qualified moving expense reimbursements. The exclusion is available only for active duty members of the U. S. Armed Forces who move pursuant to a military order and incident to a permanent change of station.

STD 675 EXAMPLE: In July 2010, an employee accepts a position with another State agency requiring that the employee relocate to a new residence. The move meets the time and distance tests; the agency issues a reimbursement warrant of $2,500.00 to the employee. The reimbursement includes non-qualified (reportable/taxable) Moving Expense in the amount of $1,000.00 and qualified (reportable/nontaxable) Moving Expense in the amount of $1,500.00. The agency withholds $220.00 Federal ($1,000.00 @ 22%) and $66.00 California Personal ($1,000.00 @ 6.6%) Income Taxes from the reimbursement.

Report the reimbursement via form **STD. 675**. Enter 1000.00 in column 6, Taxable Gross; 250.00 in column 7, Federal Income Tax; 66.00 in Column 9, State Income Tax; 1500.00 in column 11, Non-taxable Gross.

Section N 147.1.5: FORM STD. 676 (Revised 03/18)

Moving Expenses are reported to SCO via form **STD. 676P** per PPM Section N 172.2 **wherein all tax withholding will be processed by SCO from the employee's subsequent, regular pay warrant**. When using form STD. 676P, identify these payments as:

ITEM CODE	ITEM DESCRIPTION
MR	MOVING EXPENSE – RELOCATION EXPENSE

The example below is only valid for tax year beginning January 1, 2026. For tax years beginning after December 31, 2017, and before January 1, 2026, the new tax law, Tax Cuts and Jobs Act (Section 11048) suspends the exclusion from gross income of qualified moving expense reimbursements. The exclusion is available only for active duty members of the U. S. Armed Forces who move pursuant to a military order and incident to a permanent change of station.

STD 676P EXAMPLE: In July 2009, an employee accepts a position with another State agency requiring that the employee relocate to a new residence. The move meets the time and distance tests; the agency issues a $1,500 warrant for qualified (reportable/nontaxable) Moving

Expense to a third party on behalf of the employee (e.g., moving company). The agency also issues a $1,500.00 warrant to the employee for other qualified Moving Expense. There are no nonqualified (reportable/taxable) moving expenses issued. The agency does not withhold Federal or California Personal Income Taxes from the employee's reimbursement.

Report only the payment to the employee via form **STD. 676P**. Enter 1500.00 in column 7, Gross Amount Not Subject to Withholding.

Section N 147.1.6: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart V for reporting taxable Moving Expense amounts.

Section N 147.1.7: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 147.2: MOVING/RELOCATION MILEAGE (Revised 03/18)

Suspension of Moving Expense Mileage Reimbursement for tax years 2018-2025

Section 11048 of new tax legislation (P.L. 115-97) suspends the exclusion from gross income for qualified moving expense reimbursements for tax years beginning after December 31, 2017, and before January 1, 2026. The exclusion from income provision is allowed only to members of the U. S. Armed Forces (or their spouse or dependents) on active duty that move pursuant to a military order and incident to a permanent change of station. This provision expires after 2025.

The following provisions are fully restored beginning January 1, 2026.

Moving Expense Mileage reimbursements exceeding the Federal Standard Mileage Rate (FSMR) for qualified moves/relocations are reportable/taxable income. See PPM Section N 147.1.2 for definition of qualified moves/relocations.

REFERENCES (Revised 03/18)

IRS Code	274(d)
IRS Revenue Procedure	2011-116
CSU Coded Memorandum	HR/Benefits 2010-15
DPA Memorandum	2011-050
CALHR PML	2013-043
CALHR PML	2012-039

IRS Announcement	IR-2012-95
IRS Announcement	IR-2013-95
IRS Notice	N2012-72 superseded by IRS Notice 2013-80
IRS Announcement	IR 2014-114
IRS Announcement	IR 2015-137
IRS Announcement	IR 2016-169
IRS Notice	2014-79
IRS Notice	2016-1
IRS Notice	2016-79
IRS Notice	2018-03
Internal Revenue Bulletin	2018-2
CalHR PML	2014-049
CalHR PML	2015-041
CalHR PML	2016-010

Section N 147.2.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 147.2.2: GENERAL INFORMATION (Revised 03/18)

Suspension of Moving Expense Mileage Reimbursement for tax years 2018-2025

Section 11048 of new tax legislation (P.L. 115-97) suspends the exclusion from gross income for qualified moving expense reimbursements for tax years beginning after December 31, 2017, and before January 1, 2026. The exclusion from income provision is allowed only to members of the U. S. Armed Forces (or their spouse or dependents) on active duty that move pursuant to a military order and incident to a permanent change of station. This provision expires after 2025.

The following provisions are fully restored beginning January 1, 2026.

Moving Expense Mileage reimbursements exceeding the FSMR for qualified moves/relocations are reportable/taxable income. Moving Expense Mileage reimbursements less than or equal to the FSMR for qualified moves/relocations are not reportable or taxable.

The FSMR for qualified moves/relocations follow:

2018	$0.18/mile
2017	$0.17/mile
2016	$0.19/mile
2015	$0.23/mile

2014	$0.235/mile	
2013	$0.24/mile	
2012	$0.23/mile	
2011	$0.235/mile	07/01/11 – 12/31/11
2011	$0.19/mile	01/01/11 – 06/30/11
2010	$0.165/mile	
2009	$0.24/mile	

When Moving Expense Mileage reimbursements exceed the FSMR rate:

- Amounts up to and including the above rates are reportable in Box 12d on form W-2. No tax withholding is required.
- Amounts exceeding the above rates are taxable income, subject to Federal and State Income Taxes and Social Security/Medicare withholding, if applicable.

Section N 147.2.3: REPORTING INSTRUCTIONS (Revised 01/06)

Moving Expense Mileage reimbursements are reported to SCO via form **STD. 676P** per PPM Section N 172.2. When using form STD. 676P, identify these reimbursements as:

ITEM CODE	ITEM DESCRIPTION
MM	MOVING EXPENSE – MILEAGE REIMBURSEMENT

Section N 147.2.4: FORM W-2 REPORTING

Reporting to PPM Section Z - Attachment I-12, Chart V for reporting taxable Moving Expense Mileage reimbursements.

Section N 147.3: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 149: OUT-PLACEMENT (CSU ONLY) (Revised 05/13)

The value of employer paid Out-Placement Services is reportable/taxable income when: an employer receives no additional benefit from providing services; services are not provided for employee need, the employee is not seeking employment in the same trade or business of the employer (see Publication 15-B, Ch 2), and/or if the employee receives in exchange for out-placement services in exchange for reduced severance pay (or other taxable compensation) (Publication 15-A).

REFERENCES (Revised 05/13)

IRS Private Letter Ruling	8913008
IRS Revenue Procedures	92-69
IRS Publication	15-B, Chapter 2
IRS Publication	15-A, Chapter 5

Section N 149.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 149.1.1: GENERAL INFORMATION (Revised 05/13)

Out-Placement Services are offered by the CSU to certain Management Pay Plan employees. These services are a re-employment benefit offered to employees to assist individuals in securing new employment with other employers. Services include: career counseling, resume writing assistance and skills assessment. As outlined above, the value of these services when provided under specific conditions is taxable income. For example, when an employee receives out-placement services in exchange for reduced severance pay or other compensation, the amount of the severance pay reduction is taxable income.

These services are non-reportable, non-taxable when: the employer derives a substantial business benefit (such as improved employee morale or business image and avoiding wrongful termination suits) separate from the benefit an employee receives from the payment of additional compensation, **AND** the employee could deduct the cost of the services as a business deduction (when filing tax returns) had the employee paid for the services (Publications 15-A and B).

Section N 149.1.2L REPORTING INSTRUCTIONS (Revised 01/06)

Out-Placement Service values are reported to SCO via form **STD. 676V** per PPM Section N 172.2. When using form STD. 676V, identify these values as:

ITEM CODE	ITEM DESCRIPTION
OP	OUT-PLACEMENT

Section N 149.1.3: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting taxable Out-Placement amounts.

Section N 149.1.4: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 150: PROFESSIONAL/NON-PROFESSIONAL DUES/MEMBERSHIPS/ LICENSES (Revised 05/13)

Employer paid dues or memberships/reimbursements to employees for entertainment and recreational organizations/clubs/associations are reportable/taxable income. Employer paid professional license renewals/reimbursements to employees for licenses failing to qualify as working condition fringe benefits and/or issued under a non-accountable plan are reportable/taxable income.

REFERENCES (Revised 05/13)

IRS Code	132(d), 162, 274
IRS Regulation	1.274-2 (a) (2) (iii) (b)
IRS Publication	535 - Business Expenses
SCO Payroll Letter	99-015

Federal, State, and Local (FSLG) Fringe Benefit Guide January 2013, p. 71

Section N 150.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

*Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 150.2: GENERAL INFORMATION (Revised 01/02)

DUES AND MEMBERSHIPS

IRS states that employer payment/reimbursement to employees for dues or memberships for entertainment and recreational organizations are reportable/taxable income. Organizations include but are not limited to: country clubs, golf and athletic clubs, airline, dining, yacht, hotel and clubs organized for pleasure, recreation or any other social purpose including having a principal purpose to conduct entertainment for members, their guests or provide

members/their guests with access to entertainment facilities do not qualify as a working condition fringe benefit. IRS states "the purpose and activities of a club, not its name, determine if membership qualifies as a working condition fringe benefit."

EXCEPTION: Employer paid dues or memberships/reimbursement to employees for business and professional organizations when directly related to the employer's business and whether memberships is required for completion of the employee's duties are non-reportable, non-taxable.

Clubs organized exclusively for business purposes only are not considered entertainment or recreational organizations. Clubs include: business leagues, professional organizations and trade associations (State Bar Associations, Association of Certified Public Accountants, etc.). When employee participation in an organization qualifies as a working condition fringe benefit (business connection, allowable to the employee as a business deduction under **IRC 162** had the employee paid AND is reimbursed under Accountable plan rules), the benefit is non-taxable.

EXAMPLE (TAXABLE): An employer pays for an employee's dues and membership to a local country club or athletic facility. These payments do not meet IRS exclusion criteria and are taxable, reportable income.

EXAMPLE (NON-TAXABLE): An employer pays for an accountant's dues or membership in a certified public accountant society. Because participation in the society is directly related to the employee's job classification and job performance, the payment is non-taxable.

LICENSES

Employer payment for and/or reimbursements to employees to maintain professional licenses, notary bonding, etc. are considered ordinary and necessary business expenses when required to maintain a license or status for the employee's job performance **AND** when paid as a working condition fringe benefit (IRC 162) under an Accountable plan.

NOTE: Any payment or reimbursement failing IRC 162 provisions and/or paid under a Non-accountable plan is taxable income.

EXCEPTION: Employer paid professional license renewals/reimbursements to employees qualifying as working condition fringe benefits and issued under Accountable plan rules are non-reportable, non-taxable income.

NOTE: To qualify as tax-free dues/memberships/license renewals must have a logical connection between the benefit and the employee's job.

Section N 150.3: REPORTING INSTRUCTIONS (Revised 01/06)

Taxable dues/membership/license payments made directly to employees are reported to SCO via form **STD. 676P**; **payments made to third parties on behalf of employees** are reported via

form **STD. 676V** (values) per PPM Section N 172.2. When using form STD. 676P or 676V, identify these payments/values as:

ITEM CODE	ITEM DESCRIPTION
DM	DUES/MEMBERSHIPS

Section N 150.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting the value of taxable Dues/Memberships provided to employees.

Section N 150.5: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 151: SCHOLARSHIPS (Revised 05/13)

The value of employer provided scholarships and tuition reductions is reportable/taxable unless IRC Section 117 provisions are satisfied.

REFERENCES (Revised 05/13)

IRS Code Sections	117(b),127,132 and 162
IRS Regulations	1.117-3
CSU Coded Memorandum	HR/Benefits 2011-14

Federal, State, and Local Governments (FSLG) Fringe Benefit Guide, January 2013, pg. 77 and 78

Section N 151.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**NO***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 151.2: GENERAL INFORMATION (Revised 05/13)

SCHOLARSHIPS: For scholarships to be tax-free, they must be "qualified scholarships." The recipient must be a candidate as defined by IRS at an educational organization and amounts provided are used for qualified tuition and expenses including fees, books, supplies and

equipment required for the class(es). Taxable scholarships encompass any "non-qualified" scholarship wherein: amounts provide study or research services for the benefit of the grantor, amounts are compensation for past, present or future services performed by the recipient; and amounts are for "non-qualifying payments" including room and board, incidental expenses, travel, etc.

QUALIFIED TUITION REDUCTION PROGRAMS: **IRC Section 117** states that gross income shall not include any qualified tuition reduction offered by an educational institution to its employees (including spouses and dependents as defined). Qualified tuition reduction means the fee amount reduced by the institution for undergraduate level education and graduate level education **ONLY** for research and teaching activities. (Taxable Fringe Benefit Guide, Jan 2013)

CSU ONLY: The Fee Waiver Program allows eligible employees to participate in job related/career development/upward mobility education at CSU campus facilities. Spouses, domestic partners and dependents of eligible employees (Faculty, Physicians, CSEA, Academic Support, Skilled Trades, Public Safety and Non-represented) may participate if enrolled in courses toward completion of a degree. The Fee Waiver Program permits education at undergraduate and graduate level.

CSU waives various fees normally charged for course enrollment, in full or in part, for approved program participants. The fee amount waived for any enrollment is determined by the appropriate campus administrator consistent with applicable bargaining agreements or CSU policy. All Fee Waiver amounts at the graduate level (except for teaching and research assistants) are reportable/taxable income under **IRC Section 117**.

Section N 151.3: REPORTING INSTRUCTIONS (Revised 01/06)

Taxable Fee Waiver amounts are reported to SCO via form **STD. 676V** per PPM Section N 172.2. When using form STD. 676V, identify these values as:

ITEM CODE	ITEM DESCRIPTION
SC	SCHOLARSHIPS – CSU FEE WAIVER PROGRAM

Section N 151.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting taxable CSU Fee Waiver amounts.

Section N 151.5: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 153: TICKETS (Revised 05/13)

Tickets provided to employees for athletic, social, entertainment-based events, etc. are reportable/taxable income.

EXCEPTION: The value of some employer provided tickets are excluded from taxation. These exclusions include: De Minimis Fringe Benefit, No Additional Cost Benefits and Working Condition Fringe Benefits.

REFERENCES (Revised 05/13)

IRS Code	132(b), 132(d) and 132(e)
IRS Regulations	1.132-2(a), 1.132-5 and 1.132-6(e)
IRS Publication	15-B, Employer's Tax Guide to Fringe Benefits

Federal, State, and Local Governments (FSLG) Fringe Benefit Guide, January 2013, pg. 20

Section N 153.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 153.2: GENERAL INFORMATION (Revised 05/13)

State employers provide a variety of tickets to employees including athletic, social, entertainment based and related event tickets. The Fair Market Value (FMV) or face value shown on the ticket is reportable/taxable income unless the ticket is provided under and fully satisfies one of the following tax exclusions.

<u>De Minimis Fringe Benefit</u> - IR Code Section 132(e), Regulations 1.132-6(e)

A de minimis fringe benefit is any property or service that an employer provides to an employee, if the value of such property or service is so minimal that accounting for it would be unreasonable or administratively impractical. The IRS lists an occasional theater or sporting event tickets as examples of a de minimis fringe benefit. **Tickets provided to CSU employees, wherein the value is minimal and the tickets are <u>not</u> accounted for, <u>may</u> qualify under this exclusion**.

NOTE: IRC regulations specifically state that "season tickets to sporting or theatrical events" do not qualify under this exclusion.

<u>No Additional Cost Service</u> - IR Code Section 132(b), Regulations 1.132-2(a), Publication 15-B

No additional cost service refers to certain services provided by an employer in its "line of business" to employees performing in that line of business. For example and per the IRS, most campus employees, (if not all) are in the same line of business (educational services) and are eligible for no additional cost service should a campus offer this benefit.

The service may be offered free or at a reduced charge. **To qualify, the services must be offered on a non-discriminatory basis (i.e., the services area available on substantially the same terms to all employees). The employer must also determine that it does not incur a substantial additional cost (including loss of revenue) in providing services to its employees without regard to any amount paid by the employee for such services, IRC Sec 132-2 (a) (5)**. If these two criteria are satisfied, the tickets are nontaxable income.

Working Condition Fringe Benefit - IR Code Section 132(d), Regulations 1.132-5

A working condition fringe benefit includes any property or service provided to an employee to the extent that, if the employee paid for such property or service, this payment would be allowable as a deduction by the employee. To qualify, the employer must ensure that the employee maintains records to substantiate the exclusion under the IRC. Business substantiation records must provide a detailed accounting, including: time and date, participants, business purpose and place of use.

EXAMPLE (NON-TAXABLE): A department/campus occasionally offers employees free tickets, whose value is nominal, to an event. The tickets are not numbered nor is there a record to account for any of the event tickets. Under this example, the free tickets satisfy the de minimis fringe benefit exclusion.

EXAMPLE (TAXABLE): Employees of a campus are given theater tickets to four plays a year. The university maintains a log so it can determine who uses the tickets. Under this example, the free tickets do not meet the de minimis fringe benefit exclusion. The Fair Market Value (or face value, if shown) of the tickets is reportable/taxable income.

EXAMPLE (NON-TAXABLE): An employer sells tickets for a speaker at the campus. The numbered tickets cost $10.00 each. On the day of the speech, the employer realizes that there are 1,000 unsold tickets that are unlikely to be purchased. The campus offers free tickets to all its employees. Under this example, the free tickets meet the no additional cost service exclusion.

EXAMPLE (NON-TAXABLE): A campus sponsors a concert and is concerned about security. As a deterrent to inappropriate behavior and to provide a security presence, tickets are distributed to staff. Business records are maintained substantiating who attended and the reason for attending (security). Under this example, the free tickets meet the working condition fringe benefit exclusion.

EXAMPLE (NON-TAXABLE): A coach is responsible for distributing tickets to promote the university's sports program. The campus establishes a process where the tickets are not given to the coach but left at Will Call. The campus maintains a log substantiating that the individuals receiving tickets have a legitimate business connection with the campus.

Under this circumstance, the free tickets meet the working condition fringe benefit exclusion and are not taxable/reportable for the coach who distributes the tickets.

EXAMPLE (TAXABLE): A coach's compensation contract with a university gives the coach control over a block of tickets. Even if a ticket log is maintained, the tickets do not meet the working condition fringe benefit. The Fair Market Value (or face value, if shown) is taxable/reportable income.

Section N 153.3: REPORTING INSTRUCTIONS (Revised 01/06)

Taxable ticket FMV or ticket face value is reported to SCO via form **STD. 676V** per PPM Section N 172.2. When using form STD. 676V, identify these values as:

ITEM CODE	ITEM DESCRIPTION
TK	TICKETS

Section N 153.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting the value of taxable tickets provided to employees.

Section N 153.5: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 157: TIPS/GRATUITIES (Revised 01/02)

Tips and Gratuities are reportable/taxable income.

REFERENCES

IRS Code 3402(k), 3121(a) (12), and 3306(s)

Section N 157.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 157.2: GENERAL INFORMATION (Revised 01/02)

All tips and gratuities constitute taxable income. Tips are a voluntary payment to an employee from a customer who determines the tip amount. A gratuity is a mandatory service charge applied by an employer to a customer's bill, banquet charge, etc. wherein the employer distributes that service charge amount to an employee. Tips and gratuities are reportable/taxable income under both Federal and State law.

Section N 157.3: REPORTING INSTRUCTIONS (Revised 01/06)

Agencies/campuses should use form **STD. 671**, Miscellaneous Payroll/Leave Action, or **Form 672**, Time and Attendance, to report gratuity payments via the PIP System. Refer to PPM Section G 150 for completion instructions.

Tips and Gratuities may also be reported to SCO via form **STD. 676P** per PPM Section N 172.2. When using form STD. 676P, identify these reimbursements as:

ITEM CODE	ITEM DESCRIPTION
TI	GRATUITIES (TIPS)
TG	GRATUITIES (GRATUITIES)

Section N 157.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart I for reporting Tip amounts.

Refer to PPM Section Z – Attachment I – 12, Chart VI for reporting Gratuity amounts.

Section N 157.5: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 159: TOOL ALLOWANCES (Revised 07/07)

All Tool Allowances issued under a non-accountable plan are reportable/taxable income.

REFERENCES

IRS Code 62(c), 132 and 274

Section N 159.1: APPLICABLE TAXES (Revised 07/02)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 159.1.1: GENERAL INFORMATION (Revised 07/07)

Tool Allowances are Employee Business Expenses. Reimbursements are non-taxable if an employer's Tool Allowance plan satisfies IRS requirements for an accountable plan (See PPM Section N 120).

Reimbursements are also non-taxable when the benefit provided meets the requirements for a working condition fringe benefit. Property/tools/equipment provided to employees by the State are considered a working condition fringe benefit when the following criteria are met:

- are not specifically assigned (or issued) to the employee;
- are available for general use by all employees; and
- would be allowable to the employee as a business expense deduction under IRC 162 or 167 had the employee purchased such property.

The State maintains separate non-accountable (taxable) Tool Allowance plans for Civil Service employees, by Bargaining Unit (e.g., BU 12 Craft and Maintenance Tool Allowance).

Section N 159.1.3: REPORTING INSTRUCTIONS (Revised 01/06)

Tool Allowance payments are reported to SCO via form **STD. 676P** per PPM Section N 172.2. When using form STD. 676P, identify these reimbursements as:

ITEM CODE	ITEM DESCRIPTION
TA	TOOL ALLOWANCE

Section N 159.1.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart VI for reporting taxable Tool Allowance amounts.

Section N 159.2: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

IRC 132 (f) allows employers to exclude employer provided Qualified Transportation Fringe Benefits (QTFB) values from employees' gross income. **QTFBs include employer-provided mass transit passes, transportation in a commuter highway vehicle and parking on or near employer's premises or at a "park and ride" facility**. Each QTFB has unique requirements and a monthly benefit exclusion amount that must be followed to secure tax-free benefits. Failure to apply the requirements negates the tax-free basis; any amount exceeding the monthly exclusion amount (by benefit) is reportable/taxable income.

Monthly exclusion rate for **all** QTFBs cannot exceed the combined rate for transit passes and parking (e.g., for 2018, cannot exceed $520/month -- $260 + $260). See PPM Section N 161.1.

The following CS and CSU benefits **qualify** as QTFB Programs when the specific benefit rules and criteria are followed: **Discount Travel/Transit Pass, Van Pool Driver (CS only), Commuter Highway Vehicle (CSU only), Vanpool Riders in Commuter Highway Vehicle (CS) and Employer Provided Parking Programs**.

CSU's Car/Vanpool Program as currently defined **does not satisfy QTFB requirements regarding van size, occupancy and certification of actual use. This benefit is fully reportable/taxable income**.

REFERENCES (Revised 03/18)

IRS Code	132(f)
IRS Revenue Procedure	2013-15
Revised IR	2013-4
Internal Revenue Bulletin	2013-5
IRS Notice	2013-8
IRS Revenue Procedure	2011-116
DPA Memorandum	2010-41
CSU Technical Letter	HR/Benefits 2011-16
Federal, State and Local Governments (FSLG) Fringe Benefit Guide, January 2014	
IRS Bulletin No.	2013-47
IRS Revenue Procedure	2013-35
IRS IR	2014-104
IRS Revenue/Procedure	2014-61
IRS Notice	2015-2
IRS IR	2015-119
IRS Revenue Procedure	2015-53
IRS Revenue Bulletin	2016-4
IRS Notice	2016-06
IRS Revenue Procedure	2016-14
IRS Announcement	IR 2016-139

IRS Announcement	IR 2017-178
IRS Revenue Procedure	2016-55
IRS Revenue Procedure	2017-58
IRS Publication 15-B	Employer's Tax Guide to Fringe Benefits

Section N 161.1: FEDERAL EXCLUSION RATES (Revised 03/18)

EXCLUSION AMOUNT

Year	Transit Passes	Commuter Highway Vehicle	Parking
2018	$260/mo	$260/mo	$260/mo
2017	$255/mo	$255/mo	$255/mo
2016	$255/mo	$255/mo	$255/mo
2015	$250/mo***	$250/mo***	$250/mo
2014	$250/mo**	$250/mo**	$250/mo
2013	$240/mo	$240/mo	$240/mo
2012	$240/mo*	$240/mo*	$240/mo
2011	$230/mo	$230/mo	$230/mo
2010	$230/mo	$230/mo	$230/mo
03/01/09 – 12/31/09	$230/mo	$230/mo	$230/mo
01/01/09 – 02/28/09	$120/mo	$120/mo	$230/mo

* The legislation provided a retroactive increase from the $125 limit that had been in place (please see Revised IR-2013-4, Revenue Procedure 2013-15 and IRS Notice 2013-8).

**HR. 5771, Tax Increase prevention Act (TIPA) of 2014 increased the maximum monthly excludable transit benefits from $130 to $250 retroactively from Jan. 1 – Dec. 31, 2014 (please IRS Notice 2015-2).
***HR.2029, Protecting Americans from Tax Hikes Act (PATH Act) of 2015 increased the maximum monthly excludable transit benefits from $130 to $250 retroactively from Jan. 1 – Dec. 31, 2015 (please see IRS Notice 2016-6, IRS I.R.B. 2016-4).

Section N 161.2: DISCOUNT TRAVEL/TRANSIT PASSES (Revised 10/14)

Employer paid/reimbursed Discount Travel/Transit Passes up to the monthly, federal exclusion amount are non-reportable, non-taxable income **WHEN** paid under an employer's bona fide reimbursement arrangement.

EXCEPTION: Discount Travel/Transit Passes values exceeding the exclusion amount and/or not paid under a bona fide reimbursement plan are reportable taxable income.

Transit pass is any pass, token, fare card, voucher or similar item that entitles a person to transportation. The transportation must be on mass transit facilities (public or privately owned) or provided by any person in the business of transporting persons for compensation or hire in a highway vehicle with a seating capacity of at least six adults (excluding the driver). Benefit values up to the monthly exclusion amount (see PPM Section N 161.1) are non-reportable, non-taxable; **values exceeding the exclusion amount are reportable/taxable income**.

An employer's bona fide reimbursement plan must ensure that an employee incurred transit pass expense equals the employer's reimbursement for that transit pass. An employer's plan may permit an employee to:

- Present a used transit pass to the employer at month end and certify that the employee purchased and used that pass, or
- Present/purchase a transit pass to/from the employer at the beginning of the month and certify that the employee purchased it and will use it during the month.

REFERENCES (Revised 03/18)

IRS Code	132(f)
IRS Regulations	1.132-9(b)
California Revenue and Taxation Code	17149
IRS Revenue Procedure	2013-15
Revised IR	2013-4
Internal Revenue Bulletin	2013-5
IRS Revenue Procedure	2011-116
IRS Publication	15-B-Employer's Tax Guide to Fringe Benefits
NYS Publication	50-Employer’s Guide to Unemployment Insurance, Wage Reporting and Withholding Tax
CSU Technical Letter	HR/Benefits 2011-16
Federal, State and Local Governments (FSLG) Fringe Benefit Guide, January 2014	
IRS Bulletin	2013-47
IRS Revenue Procedure	2013-35
IRS IR	2014-104
IRS Revenue Procedure	2014-61
IRS Notice	2015-2
IRS IR	2015-119
IRS Revenue Procedure	2015-53
IRS Revenue Bulletin	2016-4
IRS Notice	2016-06
IRS Revenue Procedure	2016-14
IRS Announcement	IR 2016-139
IRS Announcement	IR 2017-178
IRS Revenue Procedure	2016-55
IRS Revenue Procedure	2017-58

Section N 161.2.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**NO/YES****	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.
** California/New York law exempts transit passes from California/New York Income Tax withholding.

Section N 161.2.2: REPORTING INSTRUCTIONS (Revised 05/08)

Taxable Discount Travel/Transit Pass amounts are reported to SCO via forms **STD. 676P** (payments) and **STD. 676V** (values) per PPM Section N 172.2. When using form STD. 676P or 676V, identify these payments/values as:

ITEM CODE	ITEM DESCRIPTION
TD	TRANSPORTATION SUBSIDIES – DISCOUNT TRAVEL/TRANSIT PASSES

Transit Pass amounts are exempt from California/New York State Income tax withholding. To exclude from California/New York State wage reporting, leave the "State Code," Column 8 on forms STD. 676P or 676V **blank**.

Section N 161.2.3: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart II for reporting taxable Discount Travel/Transit Pass amounts.

Section N 161.2.4: SPECIAL INSTRUCTIONS (Revised 10/03)

Form W-2, Wage and Tax Statement, includes Discount Travel/Transit Pass benefits as Federal and SS/Medicare Wages but not as CA/NY State Wages. **The Franchise Tax Board requires that employees reconcile differences between Federal and State Wages via their Income Tax Return**.

Section N 161.2.5: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 161.3: VANPOOL DRIVER IN A COMMUTER HIGHWAY VEHICLE (CS ONLY) (Revised 10/14)

CS Vanpool Driver Program reimbursements paid up to the monthly, Federal exclusion amounts are non-reportable non-taxable income for Federal tax purposes when two conditions are met. The reimbursements must be paid under an Employer's Bona Fide Reimbursement Plan AND employees must certify via the Vanpool Driver Payment Form/Certification that the vanpool meets all federal QTFB requirements.

Reimbursements are neither reportable nor taxable income for State purposes under California/New York provisions.

When CS Vanpool Driver has no reimbursable expenses (i.e. a driver only scenario where the van driven is fully maintained by the van provider), then the Vanpool Driver payment is reportable and taxable for Federal purposes. When CS Vanpool Driver Program reimbursements exceed the Federal Exclusion amount, these amounts are reportable, taxable for Federal purposes.

REFERENCES (Revised 03/18)

California Revenue and Taxation Code	17149
IRS Publication	15-B, Employer's Tax guide to fringe Benefits
NYS Publication	50-Employer's Guide to Unemployment Insurance, Wage Reporting and Withholding Tax
Federal, State and Local Governments (FSLG) Fringe Benefit Guide, Jan 2013	
Revenue Procedure	2013-15
Revenue Procedure	2013-35
Revenue Procedure	2014-61
IRS Notice	2015-2
IRS IR	2015-119
IRS Revenue Procedure	2015-53
IRS Revenue Bulletin	2016-4
IRS Notice	2016-06
IRS Revenue Procedure	2016-14
IRS Announcement	IR 2016-139
IRS Announcement	IR-2017-178
IRS Revenue Procedure	2016-55
IRS Revenue Procedure	2017-58
IRS Publication 15-B	Employer's Tax Guide to Fringe Benefits

Section N 161.3.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**NO/YES****	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.
** California/New York law exempts Vanpool Driver payments from California/New York Income Tax Withholding.

Section N 161.3.2: GENERAL INFORMATION (Revised 03/18)

A QTFB commuter highway vehicle is a highway vehicle with a seating capacity of at least six adults (excluding the driver). At least 80% of the vehicle's mileage must reasonably be expected to be transporting employees for travel between residences and work site and on trips during which the number of employees transported for commuting is at least 50% of the adult seating (excluding the driver).

An employer's bona fide reimbursement plan must ensure that a Vanpool Driver's incurred expenses equal the employer's reimbursement. Under this program, receipts are required up to the Federal exclusion amount (see PPM Section N 161.1). Payments, not issued under a bona fide reimbursement plan, issued to vanpool drivers failing to certify meeting the federal requirements, and payments exceeding the exclusion amount are fully reportable/taxable income.

<u>EXAMPLE (NON-TAXABLE)</u>: An employee is compensated $130.00/month for being a Vanpool Driver. A bona fide reimbursement arrangement is in place, and the employee certified that the vanpool meets the Federal requirements. Under this example, the Vanpool Driver payment does not exceed the Federal exclusion amount. No reporting is required.

<u>EXAMPLE (TAXABLE)</u>: An employee is compensated $130.00/month for being a Vanpool Driver. Although a bona fide reimbursement arrangement exists, the employee's vanpool does not meet the federal criteria. Under this example, the value of the Vanpool Drive payment ($130.00) is reportable/taxable income.

<u>EXAMPLE (TAXABLE)</u>: An employee is compensated $265.00/month for being a Vanpool Driver. A bona fide reimbursement arrangement is in place, and the employee certified that the vanpool meets the Federal requirements. Under this example, the Vanpool Driver payment exceeding the Federal exclusion amount is reportable/taxable income
($265 - $260 = $5.00).

Section N 161.3.3: REPORTING INSTRUCTIONS (Revised 05/08)

Taxable Vanpool Driver reimbursements are reported to SCO via form **STD. 676P** per PPM Section N 172.2. When using form STD. 676P, identify these payments as:

ITEM CODE	ITEM DESCRIPTION
TV	VANPOOL DRIVER

Taxable Vanpool Driver Payments are exempt from California State Personal Income Tax Withholding. To exclude from California State Wage reporting, leave the "State Code", Column 8 on form STD. 676P **blank**.

Section N 161.3.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart II for reporting taxable Vanpool Driver payments.

Section N 161.3.4.1: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 07/07)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 161.3.5: SPECIAL INSTRUCTIONS (Revised 01/02)

Form W-2, Wage and Tax Statement, will report Vanpool Driver Payments as Federal and Social Security/Medicare Wages, but not as State Wages. **The Franchise Tax Board requires that employees reconcile differences between Federal and State wages via their Income Tax Return**.

Section N 161.4: CAR/VANPOOL (CSU ONLY) (Revised 04/11)

CSU's Car/Vanpool Program benefits are reportable/taxable income.

REFERENCES (Revised 04/11)

IRS Code	61
IRS Regulations	1.61-21 I(2)(iii)(b)
Taxation Code	17149

Section N 161.4.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**NO**	**NO***

*Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 161.4.2: GENERAL INFORMATION (Revised 01/02)

The Car/Vanpool Program falls under **IRC 132(f)** wherein the value of an employer-operated vanpool is a QTFB provided the van qualifies as a commuter highway vehicle (refer to IRC 132(f)(5)(B) or PPM Section N 161.3). A vanpool is operated by or for an employer if the employer purchases or leases vans to enable employees to commute together or the employer contracts with and pays a third party to provide vans and some or all of the related costs (maintenance, liability insurance and other operating expenses).

CSU's program as currently administered does not satisfy various criteria of commuter highway vehicle requirements (van size, occupancy and use). IRC 1.61 requires that the value of employer-provided benefits be included in an employee's wages. However, for programs wherein **costs are fully recovered** from participating employees, there is no taxable employer provided benefit. **IRS Regulation 1.61-21** requires that the **unreimbursed value** of employer-provided benefits such as Car/Vanpool must be included in participating employee's federal income (including the driver). These values must be reported as taxable wages.

Section N 161.4.3: VALUATION OF CAR/VANPOOL (Revised 01/02)

A Special Commuting Valuation Rule was adopted by the Chancellor's Office to determine Car/Van Pool values. The Commuting Valuation Rule establishes the value at $1.50 per one-way commute or $3.00 per round trip per employee. Employee reimbursements are subtracted from the $1.50/$3.00 amount. The difference represents the taxable benefit amount.

EXAMPLE: If an employee reimburses the campus $1.00 for a round trip commute, the $1.00 is subtracted from the $3.00 round trip valuation. The $2.00 is reportable/taxable income.

Section N 161.4.4: REPORTING INSTRUCTIONS (Revised 07/07)

Taxable Car/Vanpool values are reported to SCO via form **STD. 676V** per PPM Section N 172.2. When using form STD. 676V, identify these values as:

ITEM CODE	ITEM DESCRIPTION
TC	CAR/VANPOOL

Taxable Car/Van Pool amounts are exempt from California Income Tax Withholding. To exclude from California wage reporting, leave the "State Code", Column 8 on form STD. 676V **blank**.

Section N 161.4.5: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart II for reporting taxable Car/Vanpool benefit amounts.

Section N 161.4.6: SPECIAL INSTRUCTIONS (Revised 10/03)

Form W-2, Wage and Tax Statement issued to employees receiving Car/Van Pool benefits payments, includes Car/Van Pool amounts in Federal and SS/Med Wages, but not in California/New York State Wages. **The Franchise Tax Board requires that employees reconcile differences between Federal and CA State Wages via their Income Tax Return**.

Section N 161.4.7: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 161.5: TRANSPORTATION IN COMMUTER HIGHWAY VEHICLE (Revised 01/12)

CSU Commuter Highway Vehicle Program benefit values up to the monthly, federal exclusion amount, are non-reportable, non-taxable **WHEN** QTFB requirements are satisfied.

EXCEPTION: Values exceeding the exclusion amount and values received wherein QTFB federal requirements not satisfied are reportable/taxable income.

REFERENCES (Revised 03/18)

IRS Code	132(f)
IRS Revenue Procedure	2011-116
California Revenue and Taxation Code	17149
NYS Publication	50-Employer's Guide to Unemployment Insurance, Wage Reporting, and Withholding Tax
CSU Technical Letter	HR/Benefits 2011-16
IRS Revenue Procedure	2017-58
IRS Announcement	IR-2017-178

Section N 161.5.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**NO/YES****	**NO***

* Only Civil Service SEIU Rank and File employees are subject to SDI.
** California/New York law exempts commuter highway vehicle values from California/New York Income Tax Withholding.

Section N 161.5.2: GENERAL INFORMATION (Revised 01/02)

The Commuter Highway Vehicle Program falls under **IRC 132(f)** wherein the value of an employee operated vanpool is a QTFB provided the van qualifies as a commuter highway vehicle (**refer to IRC 132(f)(5)(B)** or PPM Section N 163.2). A vanpool is operated by or for an employer if the employer purchases or leases vans to enable employees to commute together or the employer contracts with and pays a third party to provide vans and some or all of the related costs (maintenance, liability insurance and other operating expenses).

CSU's program, as currently administered, satisfies the IRC Commuter Highway Vehicle requirements. Benefit values up to the monthly exclusion amount (see PPM Section N 161.1) are non-reportable, non-taxable; values exceeding the monthly exclusion amount are reportable/taxable income.

Section N 161.5.3: REPORTING INSTRUCTIONS (Revised 07/07)

Taxable Commuter Highway Vehicle values are reported to SCO via form **STD. 676V** per PPM Section N 172.2. When using form STD. 676V, identify these values as:

ITEM CODE	ITEM DESCRIPTION
TH	COMMUTER HIGHWAY VEHICLE

EXCEPTION: Commuter Highway Vehicle is exempt from California Income Tax withholding. To exclude from California wage reporting, leave the "State Code", Column 8 on form STD. 676V **blank**.

Section N 161.5.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart II for reporting taxable Commuter Highway Vehicle amounts.

Section N 161.5.5: SPECIAL INSTRUCTIONS (Revised 10/03)

Form W-2, Wage and Tax Statement, includes transportation in a Commuter Highway Vehicle amounts as Federal and SS/Med Wages, but not as California/New York State Wages. **The Franchise Tax Board requires that employees reconcile differences between Federal and CA State Wages via their Income Tax Return**.

Section N 161.5.6: VAN POOL RIDERS IN COMMUTER HIGHWAY VEHICLE (CS) (Revised 03/13)

CS Vanpool Rider reimbursements up to the monthly, federal exclusion amount, are non-reportable, non-taxable **WHEN** QTFB requirements are satisfied.

EXCEPTION: Reimbursements exceeding the exclusion amount and reimbursements received wherein QTFB federal requirements not satisfied are reportable/taxable income.

REFERENCES (Revised 03/18)

IRS Code	132(f)
IRS Notice	94-3
California Revenue and Taxation Code	17149
NYS Publication	50-Employer's Guide to Unemployment Insurance, Wage Reporting and Withholding Tax
IRS Announcement	IR-2017-178
Publication	15-B Employer's Tax Guide to Fringe Benefits
IRS Revenue Procedure	2017-58

Section N 161.5.7: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**NO/YES****	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.
** California/New York law exempts Vanpool Riders in commuter highway vehicle payments from California/New York Income Tax Withholding.

Section N 161.5.8: GENERAL INFORMATION (New 05/02)

The Vanpool Rider Program falls under **IRC 132(f)** wherein the value of an employer operated vanpool is a QTFB provided the van qualifies as a commuter highway vehicle (refer to **IRC 132(f)(5)(B)** or PPM Section N 163.2). A vanpool is operated by or for an employer if the employer purchases or leases vans to enable employees to commute together or the employer contracts with and pays a third party to provide vans and some or all of the related costs (maintenance, liability insurance and other operating expenses).

CS's Van Pool Rider Program, as currently administered, satisfies the IRC Commuter Highway Vehicle requirements. Benefit requirements up to the monthly exclusion amount (see PPM Section N 161.1) are non-reportable, non-taxable; reimbursements exceeding the monthly exclusion amount are reportable/taxable income.

Section N 161.5.9: REPORTING INSTRUCTIONS (New 07/07)

Taxable Vanpool Rider Program reimbursements are reported to SCO via form **STD. 676P** per PPM Section N 172.2. When using form STD. 676P, identify these reimbursements as:

ITEM CODE	ITEM DESCRIPTION
TH	COMMUTER HIGHWAY VEHICLE

EXCEPTION: Commuter Highway Vehicle is exempt from California Income Tax withholding. To exclude from California wage reporting, leave the "State Code", Column 8 on form STD. 676V **blank**.

Section N 161.5.10: FORM W-2 REPORTING (New 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart II for reporting taxable Commuter Highway Vehicle amounts.

Section N 161.5.11: SPECIAL INSTRUCTIONS (New 05/02)

Form W-2, Wage and Tax Statement, includes taxable Vanpool Rider amounts as Federal and SS/Med Wages, but not as State Wages. **The Franchise Tax Board requires that employees reconcile differences between Federal and State Wages via their Income Tax Return**.

Section N 161.6: EMPLOYER-PROVIDED PARKING (Revised 03/13)

The value of employer-provided "qualified parking" up to the monthly, federal exclusion value is non-reportable, non-taxable income.

EXCEPTION: Parking values exceeding the federal exclusion amount are reportable, taxable income.

REFERENCES (Revised 03/18)

IRS Code	132(f)
Public Law	102-486
Publication	15-B Employer's Tax Guide to Fringe Benefits
IRS Rev. Proc.	2017-58
IRS Ancmt.	IR-2017-178

Section N 161.6.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**NO/YES****	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

** California/New York law exempts Vanpool Riders in commuter highway vehicle payments from California/New York Income Tax withholding.

Section N 161.6.2: GENERAL INFORMATION (Revised 03/18)

Employer provided parking falls under **IRC 132(f)** wherein the value of "qualified parking when parking is provided by the employer" is a QTFB. Qualified parking is parking provided to employees on or near the employer's premises or at a location from which the employee commutes to work by carpool, commuter highway vehicle, mass transit or by transportation provided by a person in the business of transportation for compensation. **Parking on or near the employer's business premises used by the employee for residential purposes is not qualified parking**.

"**Parking is provided by the employer**" if the employer: pays for parking; reimburses employee for parking expenses; or provides parking on property that the employer owns or leases. Parking values up to the monthly, federal exclusion amount (see PPM Section N 161.1) are non-reportable, non-taxable; values exceeding the exclusion amount are reportable/taxable income.

EXAMPLE (NON-TAXABLE): An employee is provided free parking valued at $160.00/month. Under this example, the value of the employer-provided parking does not exceed the Federal exclusion amount. No reporting is required.

EXAMPLE (TAXABLE): An employee is provided free parking valued at $265.00/month. Under this example, the value of the employer-provided parking exceeds the Federal exclusion amount. The amount over the exclusion amount is reportable/taxable income ($265 - $260 = $5.00).

Section N 161.6.3: REPORTING INSTRUCTIONS (Revised 07/07)

Taxable Parking values are reported to SCO via form **STD. 676V** per PPM Section N 172.2. When using form STD. 676V, identify these values as:

ITEM CODE	ITEM DESCRIPTION
TE	EMPLOYER-PROVIDED PARKING

EXCEPTION: Employer Provided Parking is exempt from California Income Tax withholding. To exclude from California wage reporting, leave the "State Code", Column 8 on form STD. 676V **blank**.

Section N 161.6.4: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart II for reporting taxable Employer-Provided Parking amounts.

Section N 161.6.5: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 161.7: PARKING CASH-OUT (Revised 01/02)

Employer-provided cash allowance received by an employee under a Parking Cash-Out program is a taxable fringe benefit. Per the system-wide employers, no Parking Cash-Out Programs exist.

DO NOT REPORT PARKING CASH-OUT TO THE SCO.

Section N 163: UNIFORM ALLOWANCES (Revised 07/07)

Uniforms/Uniform Allowances are reportable/taxable income.

EXCEPTIONS: Uniforms/Uniform Allowances issued under Accounting Plan rules **AND** which satisfy specific IRS uniform requirements or are issued as a working condition fringe benefit are non-reportable, non-taxable.

REFERENCES

IRS Code	62 (c)
IRS Regulations	1.62-2(b)(2), 1.274-5T(f)(2) and (3)

Section N 163.1: APPLICABLE TAXES (Revised 07/07)

Federal Income Tax	SS/Medicare Tax	State Income Tax	SDI
YES	**YES**	**YES**	**YES***

* Only Civil Service SEIU Rank and File employees are subject to SDI.

Section N 163.1.1: GENERAL INFORMATION

Various uniform, protective clothing and work clothing based programs exist wherein the taxability of these benefits is determined by whether the programs satisfy specific requirements and how the benefits are paid and/or provided. Tax-free benefits must represent legitimate business expenses, satisfy all IRS definitions and payments/reimbursements be issued via Accountable Plan provisions.

UNIFORM DEFINITION: An employer's Uniform Plan must satisfy the IRS definition of a uniform. The following three criteria must be met:

1. Uniform must be specifically required to be worn/worn as a condition of employment; and
2. Uniform cannot be adaptable to general wear as defined by an objective standard versus a subjective impression based on an individual test or preference; and
3. Uniform must not be worn as general or public wear.

PROTECTIVE CLOTHING (SAFETY CLOTHING): IRS defines protective clothing as "**clothing that must be worn to protect the body from possible injury** – protective clothing does not generally include ordinary clothing purchased or worn to protect regular clothing from wear or tear or which replaces regular clothing." A welder's steel-toed shoes and specialized leather welding gloves represent protective clothing. Standard work pants and shirts that readily adapt for public or general wear are not protective clothing items.

WORKING CONDITION FRINGE BENEFIT: Work clothing and uniforms provided by an employer may also qualify for tax free status when issued as a working condition fringe benefit. To qualify, the following three conditions must be met:

1. uniform/clothing is not specifically assigned/issued to an employee; and
2. uniform/clothing is available for general use by all affected employees; and
3. uniform expense would be allowable to the employee as a business expense deduction under **IRC 162 and 167** had the employee purchased property, uniform/clothing is worn as a condition of employment and the uniform/clothing do not take the place of regular clothing suitable for everyday wear.

NOTE: Collective Bargaining agreements use a variety of terms involving uniforms and clothing based benefits. Regardless of the terms used, the above criteria must be met for uniform/clothing based benefits to be tax-free.

Section N 163.1.2: STATE PLANS (Revised 08/03)

The State maintains separate Uniform Allowance plans for Civil Service and CSU employees. Those satisfying all IRS criteria are non-taxable/non-reportable.

<u>Non-taxable plans</u>:

- CS Represented employees in Bus 1, 3, 4, 9, 10, 11,12, 13 (except work clothing provided under contract by Building and Property Management Branch), 15, 17 and 21, BU 21 Protective Clothing Plan- portion for clothing protecting an employee's body from injury.
- CSU employees Bus 2, 3 (CMA Faculty only), 5, 7, 9, 10, Management Personnel Plan (CMA only).

Taxable plans:

- CS Represented employees in Bus 5, 6, 7, 8, 13 (Building and Property Management Branch supplied work clothing), 14, 20, and BU 21 protective clothing (portion for clothing protecting employee's clothing versus body from injury), and CS excluded employees.
- CS Boot/Shoe Allowances and Reimbursements : Bus 5, 6, 7 (Marine Terminal/Safety Inspectors/Specialists), 8, 9 (Safety Footwear), 10 and 12 (CalTrans and DWR), 15, BU 17 (Registered Nurse), BU 20 (Medical and Social Services).
- CSU employees in BU 6 (Safety Shoe Allowance), BU 8 and Management Personnel Plan Public Safety.
- Military Department (SAD employees)

Section N 163.1.3: PAYMENT METHOD (Revised 01/02)

Taxable Uniform Allowance payments should issue via the USPS (PIP), rather than be paid via claim schedule and reported through the Non-USPS.

Section N 163.1.4: REPORTING INSTRUCTIONS (Revised 01/06)

Agencies/campuses should use form **STD. 671**, Miscellaneous Payroll/Leave Action, or **Form 672**, Time and Attendance, to report **taxable uniform payments via the PIP System**.

Taxable Uniform reimbursements/values are reported to SCO via forms **STD. 676P** (reimbursements) or **STD. 676V** (values) per PPM Section N 172.2. When using form STD. 676P and 676V, identify these reimbursements/values as:

ITEM CODE	ITEM DESCRIPTION
UA	UNIFORM ALLOWANCES

Section N 163.1.5: FORM W-2 REPORTING (Revised 07/07)

Refer to PPM Section Z – Attachment I – 12, Chart VI for reporting Uniform/Uniform Allowance reimbursement/values.

Section N 163.1.6: PAYMENT HISTORY OR YEAR-TO-DATE INQUIRY SCREEN (TAXI) (New 01/06)

Class codes are assigned by SCO when creating tax deductions or A/R's on Pay History and the On-Line-Year-To-Date Inquiry (TAXI). Please refer to PPM Section N 173.

Section N 170: REPORTING REQUIREMENTS FOR FRINGE BENEFITS/EMPLOYEE BUSINESS EXPENSES (Revised 01/02)

Taxable/reportable Fringe Benefits/Employee Business Expenses **must be reported ON A MONTHLY BASIS to SCO. The monthly cutoff is the 10th of the month**. Documentation received by the 10th cutoff date ensures applicable withholding is processed from the next subsequent regular payroll warrant.

NOTE: **Failure to report timely violates Federal law requirements and subjects agencies/campuses to civil and criminal actions.**

All reported "wages" from January 1st through approximately December 8th will be reflected on the employee's Form W-2. Wages reported after December's cutoff may require the issuance of a Form W-2c (corrected W-2). **Agencies/campuses are charged retroactive fees for Forms W-2c**.

EXCEPTION: See PPM Section N 175 for discussion of Special Accounting Period reporting "values."

Section N 171: WITHHOLDING REQUIREMENTS (Revised 03/18)

Fringe Benefits/Employee Business Expenses have unique withholding requirements. See Tax Withholding within each applicable section.

Agencies/campuses have the option of withholding Federal and State Income Taxes only when reporting Moving Expenses (See PPM Sections N 147.1.3 and 172.1). In all other instances, agencies/campuses shall not withhold taxes from payments/reimbursements issued to employees. Agencies/campuses must report Fringe Benefit/Employee Business Expense data via forms STD. 676P and 676V. SCO processes applicable tax withholding as follows:

Federal Income Tax	22%	
State Income Tax	6.6% 6% 9.62% 4.95% 3.75%*	CA-Effective 11/01/09 (except for Bonuses – See Section H 102) CA – 10/31/09 and prior New York Illinois – Effective 07/01/17 Illinois – 01/01/15 – 06/30/17
Social Security	6.2% 4.2% 6.2%	2013-2018 2012 and 2011 2010 and prior
Medicare	1.45%	
Additional Medicare Tax	0.9%	2013-2018**

State Disability Insurance	2018	1.0%
	2015-2017	0.9%
	2012-2014	1.0%
	2011	1.2%
	2010	1.1%
	2011	1.1%

* 5% - 2014 and prior years
** Additional Medicare tax for wages or compensation in excess of $200,000 in a calendar year.

Applicable taxes will be withheld from the affected employee's next regular payroll warrant. SCO cannot withhold Federal or State Income Taxes when forms STD. 676P and 676V are received after approximately November 10th each year. Applicable Social Security/Medicare taxes and State Disability Insurance will be withheld.

Section N 172: FORMS (Revised 03/18)

Forms STD. 675, **676P** and **676V** are used to report Fringe Benefits/Employee Business Expenses through the Non-Uniform State Payroll System.

FORM STD. 675 COMPLETION (Revised 03/18)

Form completion instructions for form STD. 675 follow.

Type or print clearly. Complete required information for each line. Do not use ditto marks (") or arrows to indicate duplicate line information.

All Moving Expense (ME) reimbursements wherein Federal/State Income Taxes are withheld at the agency/campus level must be reported to SCO on form STD. 675,
Supplementary Wage Deductions (available on DGS web site or from DGS Stores).

NOTE: SDI/Social Security/Medicare withholding amounts will normally apply as a payroll deduction from the subsequent regular payroll warrants. However, you may request an agency collection accounts receivable. Attach form STD. 674A/R to the completed form STD. 675. Indicate in remarks "Attention W-2 Unit."

Moving expense reimbursements reported via form STD. 675 are identified on the on-line year-to-date as Class Code 2700, Serial Number 999.

Agencies/campuses must total the Federal and State Income Tax amounts (columns 7 and 9) and prepare a revolving fund check for that amount. Warrants must be made payable to "State Controller."

The original form STD. 675, one copy and the revolving fund check must be stapled together and delivered to the Administration and Disbursements Division, 3301 C Street or mailed to:

State Controller's Office
Administration and Disbursements Division
PO BOX 942850
Sacramento, CA 94250-0001

SCO PROCESS

The Personnel/Payroll Services Division will verify the authorized signature on the form STD. 675. If an unauthorized signature is identified, and/or an incorrect amount is entered on the revolving fund check, the form STD. 675 and revolving fund check will be returned by the Administration and Disbursement Division for correction.

The Administration and Disbursement Division will deposit the revolving fund check and route to Payroll Operations, W-2 Unit, the original form STD. 675 for W-2 reporting and applicable. Social Security, Medicare and State Disability Insurance withholding.

Entries on form STD. 675 must be as follows.

Top Boxes: Page ____ of ____ must be completed (e.g., 1 of 11)

NOTE: **SCO accepts form STD. 675 only when the agency/campus withholds taxes**. If SCO is to withhold Income taxes, form STD. 675 will be returned – un-processed – for resubmission via form STD. 676P.

"Tax Year" must be completed and match the year in the Issue Date (column 10).

Column	
1	Enter the employee's Social Security Number.
2	Enter the employee's first/middle initials and surname.
3	Enter the employee's three digit agency code.
4	Enter the employer's three digit unit code.
5	Enter the pay period in which the ME amounts were incurred.
6	Enter the amount of non-qualified ME (taxable income) including (see PPM Section N 143.2): • all meals connected with the move • pre-move house hunting trips • temporary living expenses • sales or purchase of a residence and • leases, unexpired or new
7	Federal Income Tax (enter the applicable percentage of the gross amount in column 6): 22%
8	Enter the State Code: - CA, California - IL, Illinois - NY, New York - Blank, all others

Column	
9	Enter the State Income Tax amount withheld (6.6% California, 9.62% New York, 4.95% Illinois) of the amount in column 6.
10	Enter the issue date of the benefit payment or value. Issue date is the last day of the pay period payments issued to the employee.
11	Enter the amount of qualified ME paid directly to the employee (non-taxable income) including (see PPM Section N 147.1.2): • reasonable costs of moving the employee's household goods and personal effects from the employee's former residence to the new residence. **NOTE**: Qualified ME paid directly to a third party on behalf of the employee is not reportable. • the reasonable costs of travel and lodging expenses incurred from the old location to the new one.

Qualified ME payments paid the employee, while not considered taxable income, are reportable on Form W-2 in box 12d, labeled "P."

Section N 172.2: FORMS STD. 676P & 676V COMPLETION (Revised 10/07)

Form completion instructions for forms **STD. 676P** and **676V** follow.

- **Form STD. 676P, NON-USPS ADJUSTMENT REQUEST -- PAYMENTS**, is for reporting payments/reimbursements (available on DGS web site or from DGS Stores). This form may be accessed via the Internet at www.osp.dgs.ca.gov/standardforms.pdf as a Fill and Print form.
- **Form STD. 676V, NON-USPS ADJUSTMENT REQUEST -- VALUES** , is for reporting non-cash values (available on DGS web site or from DGS Stores). This form may be accessed via the Internet at www.osp.dgs.ca.gov/standardforms.pdf as a Fill and Print form.

NOTE: Any creation of this form must have Department of General Services (DGS) prior approval before submitting to SCO. **WITHOUT DGS APPROVAL OF MODIFICATION, FORMS WILL BE RETURNED UNPROCESSED**. Type all CAPS using font size 12 only or print clearly. Complete required information for each line. Do not Use do not use ditto marks (") to indicate duplicate line information. Submit completed forms to:

State Controller's Office
Personnel/Payroll Services Division
Attention: W-2 Unit
Sacramento, CA 94250-5878

Or via the interagency mail service to: IMS Code B-8.

SPECIAL FB/EBE REPORTING

CSU ONLY

FOR STUDENT ASSISTANTS NOT SUBJECT TO SOCIAL SECRITY/MEDICARE TAXES

- Report Student Assistant FB/EBEs separately from all other employees. One form must be submitted for Student Assistants and another form for all other employees.
- Indicate, in RED, "STUDENT ASSISTANTS" at the top of the form STD. 676.

This procedure prevents agency collection accounts receivable from being established for Social Security/Medicare taxes.

BOARD MEMBERS

FOR BOARD MEMBERS THAT ARE SUBJECT TO SOCIAL SECURITY/MEDICARE TAXES

- Report Board Members FB/EBEs separately from all other employees. One form must be submitted for Board members and another form of all other employees.
- Indicate, in RED, “BOARD MEMBER” at the top of the form STD. 676.

This procedure will establish agency collection accounts receivable for Social Security/Medicare taxes.

Box A **Item Code**	A separate form STD. 676P or 676V is required for each Item Code. Enter the two character ALPHA code for benefit reported (see PPM Section N 173).
Box B **Item Description**	Enter full name of the benefit reported (e.g., CARS – Standard Business Mileage Allowance or MEALS AND LODGING - Long Term Travel) (see PPM Section N 173).
Box C **Tax Year**	A separate form STD. 676 is required for each tax year.
Box D **Page ____ of ____**	Must be completed.

Column	
1	Enter the employee’s Social Security Number.
2	Enter the employee’s first initial and last name.
3	Enter three digit agency code.
4	Enter three digit unit number.
5	Enter Pay Period For Form STD. 676P. Enter the two-digit pay period and two-digit tax year in which the benefit amounts were paid or incurred (whether reporting reimbursement via revolving fund check or claim warrant). For Form STD. 676V:

Column	
	Enter the two-digit pay period and two-digit tax year in which the benefit amounts were received or incurred.
6	Enter gross amount subject to withholding.
7	For Form STD. 676P: Enter the gross amount **NOT** subject to withholding. This column is used **ONLY** to report the "**UP TO**" amounts of: • Standard Business Mileage Allowance • Moving Expense Relocation Mileage, or • Qualified ME payments paid directly to the employee.
8	Enter the State Code: - CA, California - IL, Illinois - NY, New York - Blank, all others **NOTE**: FOR CALIFORNIA RIDESHARE INCENTIVE AWARD, CAR/VANPOOL, COMMUTER HIGHWAY VEHICLE, FORGIVABLE LOAN, VANPOOL DRIVER AND DISCOUNT TRAVEL/TRANSIT PASSES, LEAVE STATE CODE **BLANK**. FOR NEW YORK CAR/VANPOOL, COMMUTER HIGHWAY VEHICLE, VAN POOL DRIVER AND DISCOUNT TRAVEL/TRANSIT PASSES, LEAVE STATE CODE **BLANK**.
9	Issue Date: Enter two digit month, day and year. (XX/XX/XX) **A separate Form STD.676P or STD. 676V is required for each tax year**. For Forms STD. 676P: Enter issue date. Issue date is defined as the last day of the pay period in which the employee received reimbursement via revolving fund check or claim warrant and tax year is the calendar year in which the check/warrant was issued. For Forms STD. 676V: Enter issue date. Issue date is defined as the last day of the pay period in which the employee received the benefit value and tax year is the calendar year in which the benefit value was received. **NOTE**: Non-cash taxable fringe benefits are reported under a Special Accounting Period (SAP) of December through November. For non-cash benefits received in December, enter 01/01/XX of the subsequent year. See PPM Section N 175.
10	Total Line Entries Enter total number of completed line entries from column 1 and total amounts for column 6 and column 7 for each page.

BOTTOM BOXES

- Enter agency/campus name.
- Signature of the reporting officer (Reporting officer must have a signature card [PPSD 8A] on file for forms STD. 676 P/V).
- Enter current date.

- Enter name and telephone number of the person completing the form.
- Enter mailing address to send inquiries regarding form.

Section N 173: ITEM CODE AND ITEM DESCRIPTION (Revised 05/18)

The table below summarizes the appropriate Item Descriptions, Item Codes and forms STD.676P or 676V and STD. 675 for each reportable benefit payment or value. Also included are class codes assigned by SCO when creating tax deductions or A/R's.

ITEM DESCRIPTION	ITEM CODE	STD 676	STD 675	CLASS CODE
AIRCRAFT:				0101
Personal Use of State Aircraft	AP	V		0102
Reimbursement Plans	AR	P		0103
AWARDS/BONUSES/INCENTIVES				0110
Employee Recognition & Moral Program	AE	P		0111
Health & Safety Incentive Award	AH	P		0112
Incentives Provided By Third Parties (Non Cash)	IT	P		0119
Incentives Provided By Third Parties	IE	V		0120
Lottery Sales Recognition Program	AL	V		0113
Merit Award Program (Non Cash)	AM	V		0116
Miscellaneous Incentive Program (Non Cash)	II	V		0117
Miscellaneous Incentive Program	IM	P		0118
Rideshare Incentive Award Program	AI	V		0114
Safety Incentive Award Program	AS	P		0115
BICYCLE:				
Bicycle Mileage/Miscellaneous Bicycle Fees	BM	P		0201
Bicycle Commuter Program	BC	P		0204
CARS:				
Personal Use of State Vehicle	CP	V		0303
Vehicles Provided By Third Parties	CV	V		0307
CAR MILEAGE:				
Call Back Mileage	CB	P		0305
Commuter Mileage	CC	P		0302
Remote Headquarters Mileage	CR	P		0306
Standard Business Mileage	CS	P		0304
DOMESTIC PARTNER BENEFITS				0009

ITEM DESCRIPTION	ITEM CODE	STD 676	STD 675	CLASS CODE
EDUCATIONAL ASSISTANCE	EA	P V		0501
ELECTRONIC DEVICES	EL	P V		0505
ENTERTAINMENT EXPENSES	EE	P		0510
HOUSING:				0801
Executive Housing Expense	HE	P V		0802
Reimbursement Plans	HR	P V		0803
Employer Provided State Housing	HV	V		0804
Possessory Interest Tax	HT	P		0805
LIFE INSURANCE:				1201
Group Term (Legislators)	LL	V		1202
Group Term (Non-Legislators)	LN	V		1203
CSU MANAGER/ EXECUTIVE LIFE INSURANCE OVER $50,000				1204
LOAN PROGRAMS:				1210
Forgivable Loan/Doctoral Incentive Plan	LF	V		1211
Loan Assumption Program	LA	V		1212
Loan Forgiveness Program	LP	V		1213
LONG TERM TRAVEL:				
Meals and/or lodging	ML	P V		1302
MEALS:				
Medical Officer of the Day	MP	P V		1303
Overtime Meal	OM	P V		1510
MEALS AND LODGING:				1301
Meals Less than 24 hours	MP	P		1303
Non-Receipted Lodging	MP	P		1303
State Per Diems	MP	P		1303
Local Meals	MS	P		1320
Local Lodging	MT	P		1321
MOVING EXPENSES:				1310
Relocation Expense			X	2700

ITEM DESCRIPTION	ITEM CODE	STD 676	STD 675	CLASS CODE
Relocation Expense	MR	P		1312
Relocation Mileage	MM	P		1311
OUT-PLACEMENT	OP	V		1501
PROFESSIONAL/NONPROFESSIONAL DUES	DM	P V		0401
SCHOLARSHIPS:				
CSU Fee Waiver Program	SC	V		1901
TICKETS	TK	V		2030
TIPS/GRATUITIES:				
Tips	TI	P		2017
Gratuities	TG	P		2018
TOOL ALLOWANCES	TA	P		2001
TRANSPORTATION SUBSIDIES:				2010
Discount Travel/Transit Passes	TD	P V		2012
Van Pool Driver	TV	P		2015
Car/Van Pool	TC	V		2011
Commuter Highway Vehicle	TH	P V		2016
Employer-Provided Parking	TE	V		2013
Parking Cash-out	TP			2014
UNIFORM ALLOWANCE	UA	P V		2101

Section N 173.1: FORMS STD. 676P & 676V VOLUME PROCESSING INSTRUCTIONS (Revised 10/07)

To facilitate volume processing, agencies/campuses may report taxable amounts via listing(s) with covering form(s) **STD. 676P** and **676V**. SCO's prior approval is required; contact the W-2 Unit at (916) 322-8100.

Agencies/campuses must complete a covering form **STD. 676P** or **676V** as instructed below when submitting listing(s):

- Listings are limited to a maximum of 50 line entries, double spaced - per page. A separate covering form STD. 676P or 676V is required for each listing.
- Documents must run "portrait" (8 1/2 X 11) rather than "landscape" (11 X 8 1/2).

- Listings must have information for Items 1 through 10 Completed in the same format, order, etc.
- Each required item must be fully completed. Ditto marks (") and arrows are unacceptable.
- Character size must be no smaller than 12 font using all CAPS.
- Reduced copies are unacceptable.
- Agency/campus designee or reporting officer's signature and date are required.
- Name and telephone number of the person completing the form is required.
- Mailing address for inquiries is required.

NOTE: Listing must indicate on the coversheet in column 10 the total number of line entries and grand total for column 6 and 7.

TOP BOXES

Box A **Item Code**	A separate form STD. 676P or 676V is required for each Item Code. Enter the two character ALPHA code for the benefit being reported (see PPM Section N 173).
Box B **Item Description**	Enter full name of the benefit reported (e.g., CARS – Standard Business Mileage Allowance or MEALS AND LODGING - Long Term Travel) per PPM Section N 173.
Box C **Tax Year**	A separate form STD. 676 is required for each tax year.
Box D **Page ____ of ____**	Must be completed.

Column	
1	Social Security Number - enter "various."
2	Employee's initial and surname - enter "various."
3	Agency code - complete.
4	Unit number - complete.
5	Pay period – complete.
6	Gross amount subject to withholding - enter "various."
7	Gross amount NOT subject to withholding - enter "various."
8	Enter state code: - CA, California - IL, Illinois - NY, New York - Blank, all others
9	Issue Date – complete. **NOTE**: Use "various" when line entries for columns 3-9 differ.

Column	
10	Total Line Entries Enter total number of completed line entries from column 1 and total amounts for column 6 and column 7 for total of pages.

BOTTOM BOXES

- Enter agency/campus name.
- Signature of reporting officer (Reporting officer must have a signature card [PPSD 8A] on file for forms STD. 676P/V).
- Enter current date.
- Enter name and telephone number of the person completing the form.
- Enter mailing address to send inquiries regarding form.

Section N 174: CORRECTING DOCUMENTS (Revised 12/99)

Agencies/campuses can correct payments previously reported via form STD. 675, Supplementary Wage Deduction, and form STD. 676P or 676V, Non-USPS Adjustment Request Form:

TO **DECREASE** AMOUNTS REPORTED:

- Submit a copy of the original forms STD. 675, 676P or 676V.
- Highlight in **yellow** line entries to be corrected.
- Write in **red** on top of document "CANCEL."
- Complete and attach a new document with corrected amounts.
- Write in **red** on top of document "CORRECTION."

TO **CANCEL** AMOUNT REPORTED:

- Submit a copy of the original forms STD. 675, 676P or 676V.
- Highlight in **yellow** the line entries to be canceled.
- Resign with an original signature.

NOTE: For multiple listing cancellations please attach a new document to expedite process.

- Write in **red** on top of document "CANCEL."

TO **INCREASE** AMOUNTS REPORTED

- Submit original documentation for the amount of increase only.

DOCUMENTS SHOULD BE SENT TO SCO/PPSD, ATTENTION W-2 UNIT.

Section N 175: SPECIAL ACCOUNTING PERIOD (Revised 12/11)

SCO reports non-cash, taxable Fringe Benefit values using a Special Accounting Period of December through November.

Non-cash values received in December through November are reflected on that year's Form W-2. For example, non-cash values received in December 2010 through November 2011 were reported on the 2011 Form W-2. See PPM Section Z, Attachment N-2.

Section N 175.1: IMPACTED FB/EBE PROGRAMS (Revised 10/07)

Under this Special Accounting Period, the following non-cash, taxable benefit values are affected:

- Personal Use of State Aircraft
- Lottery Sales Recognition Program
- Rideshare Incentive Award Program
- Merit Award Program (Non Cash - goods, property, merchandise, etc.)
- Miscellaneous Incentive Program (Non Cash - goods, property, merchandise, etc.)
- Incentives Provided By Third Parties (Non Cash - goods, property, merchandise, etc.)
- Personal Use of State Vehicle
- Vehicle Provided By Third Parties
- Educational Assistance
- Electronic Devices
- Executive Housing
- Housing Reimbursement Plans
- Value of State Housing
- Group Term Life Insurance
- Forgivable Loan/Doctoral Incentive Plan
- Loan Assumption Program
- Loan Forgiveness Program
- Medical Officer of the Day
- Outplacement
- Overtime Meal Compensation (e.g., meal ticket)
- Tickets
- CSU Fee Waiver Program
- Car/Van Pool

- Discount Travel/Transit Passes
- Commuter Highway Vehicle
- Employer - Provided Parking
- Uniform Allowance
- Professional/Nonprofessional Dues

NOTE: All Cash Reimbursements, including those for overtime meal compensation and educational assistance, must still be reported in the year paid. Per IRS rules, all cash reimbursements must be reflected on the Form W-2 for the calendar year the reimbursement was paid.

Section N 176: TELEPHONE CONTACTS (Revised 02/13)

Use the following contacts for assistance for FB/EBE reporting.

Forms STD. 676P and 676V Completion:
Payroll Operations - W-2 Unit (916) 372-7200

Program Provisions for Civil Service Programs:
Department of Personnel Administration - Benefits Division (916) 322-0300

Program Provisions for California State University Programs:
Chancellor's Office - System-wide Benefits (562) 951-4413
(562) 951-4414

Reporting/Withholding Requirements:
Health, Dental, Vision and Van Pool Driver Program:
Program Management & Analysis Bureau (PMAB) (916) 322-7953

Other FB/EBE Programs:
Tax Support Section (TSS) (916) 322-8105

SCO Payroll Letters http://www.sco.ca.gov/ppsd_sco_letters.html

IRS Publications 1-800-829-3676

IRS Web Site www.irs.gov

DGS Web Site www.osp.dgs.ca.gov/standardforms.pdf

Section N 177: THIRD-PARTY SICK PAY INTRODUCTION (Revised 12/99)

Sick Pay is defined by the Internal Revenue Service as "any amount paid to employees for any period during which the employee is temporarily absent from work because of sickness or accidental disability."

Presently, some California State University (CSU) employees are covered under a Sick Pay program for extended coverage (CSU-Long Term Disability). This coverage is provided by an independent Third-Party Insurance Company (TPIC). The monthly premium is paid by CSU as a State share contribution.

Section N 177.1: TAXABILITY OF THIRD-PARTY SICK PAY (Revised 01/99)

Third-Party Sick Pay is always subject to Federal and State Income Taxes. Third-Party Sick Pay is also subject to employee and employer Social Security and Medicare taxes. These Social Security and Medicare taxes are applied only for payments received during the first six full calendar months of the employee's absence. Payments after the six-month period are exempt from Social Security and Medicare taxes.