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MEMORANDUM

To: All clients who are employers
From: Ed Rand
Date: December 28, 2015
Subject: Fringe Benefit Reporting on W-2s

IRS rules require that taxable fringe benefits be reported as taxable income to employees on their W-2 for the year. Please be sure to contact your payroll service about reporting these items in time for the service to include them in your year-end processing. Failure to do so may jeopardize the company's deduction for these expenses and result in the assessment of taxes, interest, and penalties. In general, a taxable fringe benefit is anything of value provided by an employer that is not specifically excluded by law. The following are three of the most commonly overlooked taxable fringe benefits that must be reported:

- Personal use of company car: You can use the Annual Lease Value Table (available on our website) to determine this value. The portion of this value that is taxable is determined by multiplying it by the ratio of personal mileage to total mileage for the year, and then multiplying the result by the number of days the vehicle was owned during the year and dividing by 365.
- The cost of health insurance provided by an S Corporation to any shareholder owning more than 2% of the company: Although this amount is taxable for income tax purposes, if the insurance is paid under a qualified nondiscriminatory plan, it is not subject to the Social Security and Medicare taxes. Furthermore, it is generally eligible for the self-employed health insurance deduction on the shareholder's individual income tax return. **Warning** – while as of the date of this memo, IRS has said it will not enforce the excise tax for failure to satisfy the Affordable Care Act "market reforms" with respect to S Corporation 2% shareholder reimbursement plans, it may offer guidance in the future that changes this position (See IRS Notice 2015-17).
- Life insurance in excess of \$50,000.

If you have any questions about fringe benefits, please contact our office at your earliest convenience.