



ACCOUNTING FOR EMPLOYEE FRINGE BENEFITS

Scope: All campuses served by Louisiana State University (LSU) Office of Accounting Services

Effective: July 1, 2007. This FASOP supersedes and replaces all prior versions.

Purpose: To establish policies and procedures for the accounting of certain employee fringe benefits provided by the University for income and employment tax purposes in accordance with the Internal Revenue Code (IRS). LSU provides to various employees certain fringe benefits funded directly with University funds and indirectly through funding from affiliated support organizations, including, but not limited to, LSU Foundation, LSU Alumni Association and Tiger Athletic Foundation (TAF). Any reference to the "University" is intended to include LSU campuses and affiliated support organizations. As set forth in the Internal Revenue Code, certain of these fringe benefits are excluded from an employee's gross income and are not subject to social security, medicare, federal employment taxes, and income tax withholding. Those fringe benefits not explicitly excluded from gross income are to be treated as income and as such are subject to social security, medicare, and federal employment taxes, and income tax withholding. The procedures contained herein distinguish those fringe benefits to be included in an employee's gross income from those which are to be explicitly excluded. This document is not intended to determine under which circumstances the University provides such fringe benefits nor which employees are to receive them.

Procedures:

A. Benefits to be Excluded from an Employee's Gross Income

The following types of fringe benefits, if provided by the University, are excluded from an employee's gross income and are not subject to social security, medicare, federal employment taxes, or income tax withholding:

1. No Additional Cost Service – A service offered for sale to customers in the course of the University's business which is provided to the employee at no substantial additional cost to the University, including lost revenue.
2. Qualified Employee Discount – A discount provided to employees of not more than 20% of the price for which a service is offered to customers or not more than the University's gross profit percentage for any product offered.
3. Working Condition Benefit – Property or service provided to an employee which would qualify for deduction as a business expense had the employee, rather than the University, paid for the property or service. Examples of working condition fringe benefits are dues for professional organizations and job related education.
4. De Minimis Benefit – A service or item of such a small value that accounting for the benefit is unreasonable and administratively infeasible. Examples of de minimis fringe benefits are occasional use of the company copier or traditional holiday gifts of small value.
5. Qualified Transportation Benefit – Includes transit passes, transportation in a commuter highway vehicle to and from work and qualified parking at or near the place of work, subject to specified conditions and dollar limitations as set forth in the Internal Revenue Code.

6. Qualified Moving Expense Reimbursement – Any amount received, directly or indirectly, by a University employee as payment for, or reimbursement of, expenses that would be deductible as qualifying moving expenses as set forth in the Internal Revenue Code if paid or incurred by the employee.
7. On-Premises Gym or Other Athletic Facility – Use of such a facility provided and operated by the University, provided that substantially all of the use of the facility is by the employee, their spouse and their dependent children.
8. Qualified Tuition Reduction – As set forth in the Internal Revenue Code, a reduction in tuition provided by an educational organization to its employees.

B. Benefits to be Included in an Employee's Gross Income

Those fringe benefits provided by the University which are not described in one of the categories listed in section A are to be included in an employee's gross income and are subject to all applicable employment taxes as well as income tax withholding. Such benefits include, but are not limited to:

1. Personal Use of Automobile – The value of an employee's personal use of an automobile provided by the University must be included in the employee's income. A University-provided automobile is one which is owned or leased by the University, or owned or leased by a third party and made available for an employee's use, or owned or leased by the employee and for which the University is responsible for payments to purchase or lease the automobile. Each employee assigned a vehicle must file a monthly report with the Payroll Office. The standard form for reporting mileage is Accounting Services Form AS570, "Courtesy Car Declaration". The report must be received by the tenth day of the following month. If an employee does not submit the required report to Payroll by the due date, full value will be assigned. For the annual lease value method, 1/12 of the annual lease value will be used. For commuting only, \$3 for each work day of the month will be assigned.

In accordance with Internal Revenue Service regulations (IRS), the Fair Market Value (FMV) of personal use must be determined using one of the following special valuation rules:

- a. Annual Lease Valuation Rule – This method is to be used by employees who use the vehicle for personal use, other than commuting, or who are "control employees". The IRS defines a control employee as any government employee whose compensation equals or exceeds Federal Executive Pay Level 5 – currently \$136,200. Employees are required to maintain a detailed log of all personal business usage of the vehicle and must keep this documentation on file for seven years and make it available upon request. AS571, "Courtesy Car Mileage Log", can be used for this purpose. Each employee is required to provide a breakdown showing business miles and/or personal miles traveled each month.

Under this method, a portion, based on actual personal use, of a pre-determined lease value is included in the employee's income on an annualized basis. A pro rata charge, based on the total annual value, is included in the employee's income for each pay period. See Attachment A for an explanation of the taxable income calculation. The pre-determined lease value is established by guidelines published and updated periodically by the IRS and is based on the FMV of the vehicle. Attachment B contains the current IRS Annual Lease Value Table.

For a vehicle assigned to an employee for business and personal use or for a vehicle assigned to a control employee, the FMV of the vehicle must be determined on the first day the vehicle is made available to any employee for their use. FMV is the amount the employee would have to pay a third party in an arm's length transaction to buy or lease the vehicle, including sales tax and title fees. FMV will be based on the manufacturer's suggested retail price, if provided; otherwise, FMV will be established by using the National Auto Dealers Association value. The FMV of the vehicle will be reestablished on January 1 of every fourth full calendar year following the date the vehicle was made

available to the employee. If the vehicle is transferred from one employee to another, the FMV of the vehicle will be reestablished on January 1 of the calendar year of the transfer.

Fuel – The Annual Lease Value does not include the value of fuel provided by the University. In cases where fuel is provided, the value of fuel for personal usage will be included in the employee's income at a rate of 5.5 cents per mile.

- b. Commuting Valuation Rule – This method is to be used by those employees who are required to use the vehicle to commute only and who are not to control employees. Employees are required to report the number of days the vehicle is used to commute each month. The additional income will be calculated using the \$3 per day commuting valuation method as prescribed in the Internal Revenue Code. These employees may not use these vehicles for personal purposes other than for commuting or de minimis personal uses, such as a stop for a personal errand on the way between a business stop and the employee's home.
2. Reimbursement of Non-Business-Related Travel and Entertainment Expenses – In order for University-related travel expenses incurred by an employee and reimbursed by the University to be excluded from an employee's income as a working condition fringe benefit, such expenses must have a bona fide business purpose and the employee must substantiate the expenses. In order to be excluded from an employee's income, travel expenses for an employee's spouse or other individual traveling with the employee must also have a bona fide business purpose directly benefitting the University and must be substantiated by the employee. It should be noted that in the vast majority of cases, spouse-related travel expenses reimbursed by the University will be included in an employee income.

Reimbursement to an employee for meals and entertainment generally will not be included in an employee's income provided there is a business purpose for such expenses. The employee is required to timely substantiate the reimbursed expenses and return within a reasonable period of time any amounts reimbursed which exceeds the amount of substantiated expenses. Expenses must be ordinary and necessary and incurred in the regular course of business. Further, the expenses must be directly related to, or in association with, the active course of business.

3. Non-Qualified Moving Expenses – Only those moving expenses which are reimbursed to an employee by the University or paid to a third party on behalf of the employee, and which qualify as deductible employment related expenses in the Internal Revenue Code are excluded from an employee's income. Any other moving expenses which are reimbursed by the University or paid to a third party on behalf of the employee must be included in the employee's income.

In general, only those expenses for transportation and the costs of physically moving household goods qualify as deductible under the Internal Revenue Code. All other moving expenses associated with pre-move house hunting trips, temporary housing, meals while traveling from the old home to the new home, and storage charges are not deductible and, as such, are included in an employee's income if reimbursed by the University or paid to a third party on behalf of the employee.

4. Personal Use Portion of Membership in Certain Social Clubs – In general, membership dues reimbursed to an employee, or paid by the University on behalf of an employee, are excluded from the employee's income as a working condition fringe benefit, provided the dues are for membership in a professional organization or civic or public service organization, such as Kiwanis, Rotary, Lions and similar organizations.

Payment of membership dues for any club organized for a social purpose must be included in an employee's income to the extent that the payment is not related to a business purpose. Examples of clubs organized for a social purpose are country clubs and golf and athletic clubs. In order for a portion of the club dues to be excluded from an employee's income as a working condition fringe benefit, the employee must substantiate and document the specific business purpose for that portion of the club dues. For each monthly statement the employee must substantiate the business purpose of business-related charges and indicate any personal charges. Personal charges are the responsibility of the

employee and should be remitted directly to the club. Dues related to the personal use of the club will be included in the employee's income on a pro rata basis.

5. Employer Provided Meals and Lodging – Generally, the value of meals and lodging furnished to an employee by the University is excluded from the employee's income if the meals are furnished on University premises and at the convenience of the University. Meals and lodging are furnished for the convenience of the University if they are provided for a substantial non-compensatory University business reason. Meals are provided to employees who are required to be available during irregular work hours, to perform extended work days or to be on call during emergencies and it is to the University's benefit to ensure the employee's availability. Lodging is provided to those employees who are required to occupy living quarters on campus as a condition of employment, such as Hall Directors in Residential Life. Employees who are eligible for non-taxable meals will generally have this provision in their job description. Meals and lodging provided to employees that do not qualify as a substantial business reason will be included in the employee's taxable income.
6. Awards – Awards and prizes provided to employees for outstanding achievement and other similar recognition purposes are generally included in the employee's income. Length-of-service awards are excludable from income if they are tangible personal property (such as a watch), presented in a meaningful presentation and are not awarded for less than five year increments.
7. Housing and Car Allowances – Certain LSU employees receive housing and/or car allowances as additional cash compensation. All allowances must be approved by the Board of Supervisors and are included in the employee's taxable income.
8. Uniforms and Uniform Allowance – Uniforms are provided to employees who are required to wear a uniform as a condition of employment, such as employees of Campus Mail and Facility Services. Uniform allowances are provided to certain officers with the LSU Police Department. Partial allowances are provided for industrial footwear for those employees whose job requires such footwear.

Attachment A

Taxable Income Calculation Annual Lease Value

When an employer provides a car to an employee that is available for the employee's personal use, that availability is considered to be a taxable fringe benefit. The regulations are the same, no matter if the car is owned by the University, or owned or leased by a third party (a dealership or LSU affiliated entity). When an individual is a control employee (comparable to a corporate officer or highly compensated employee in the for-profit world), the Annual Lease Value method must be used.

The IRS provides a table with the ranges of Fair Market Values and the related taxable income. The IRS table is based on a four-year lease term. At the beginning of the fifth year (and every four years thereafter), the annual lease value must be re-determined based on the Fair Market Value of the car on January 1 of that year.

The employee keeps a log of daily mileage – business and personal. The calculation of taxable income attributed to the car is based on his personal mileage only.

The calculation is as follows:

$$\text{Personal Mileage} / \text{Total Mileage} = \% \text{ Personal Use}$$

$$\text{Annual Lease Value} \times \% \text{ Personal Use} / 12 \text{ months} = \text{Monthly Income Attributed to Car Usage}$$

The monthly income amount is loaded into the fringe benefit system that feeds into the payroll system. The monthly income attributed to car usage is included in taxable income when payroll is processed so that the employee pays federal and state income taxes and any applicable employment taxes. The taxable income on the W-2 form includes the car usage income.

Attachment B

IRS Annual Lease Value Table

Fair Market Value	Annual Lease Value	Fair Market Value	Annual Lease Value
\$ 0 – 999	600	22,000 – 22,999	6,100
1,000 – 1,999	850	23,000 – 23,999	6,350
2,000 – 2,999	1,100	24,000 – 24,999	6,600
3,000 – 3,999	1,350	25,000 – 25,999	6,850
4,000 – 4,999	1,600	26,000 – 27,999	7,250
5,000 – 5,999	1,850	28,000 – 29,999	7,750
6,000 – 6,999	2,100	30,000 – 31,999	8,250
7,000 – 7,999	2,350	32,000 – 33,999	8,750
8,000 – 8,999	2,600	34,000 – 35,999	9,250
9,000 – 9,999	2,850	36,000 – 37,999	9,750
10,000 – 10,999	3,100	38,000 – 39,999	10,250
11,000 – 11,999	3,350	40,000 – 41,999	10,750
12,000 – 12,999	3,600	42,000 – 43,999	11,250
13,000 – 13,999	3,850	44,000 – 45,999	11,750
14,000 – 14,999	4,100	46,000 – 47,999	12,250
15,000 – 15,999	4,350	48,000 – 49,999	12,750
16,000 – 16,999	4,600	50,000 – 51,999	13,250
17,000 – 17,999	4,850	52,000 – 53,999	13,750
18,000 – 18,999	5,100	54,000 – 55,999	14,250
19,000 – 19,999	5,350	56,000 – 57,999	14,750
20,000 – 20,999	5,600	58,000 – 59,999	15,250
21,000 – 21,999	5,850	60,000 & Over	.25 x Fair Market Value + \$500