

Department of Finance and Administration – Policy 26 Employee Fringe Benefits and Supplemental Wages

Introduction and Background

1. This Policy Statement 26 has been developed to ensure the accurate and consistent identification, recording, and treatment of various employee fringe benefits and supplemental wages received by State employees.
2. The accounting treatment of fringe benefits is governed in large part by the Internal Revenue Service code on this topic. Fringe benefits are generally considered to be a form of pay for services and subject to federal income tax unless law or regulation specifically exempts the benefit.

Applicability and Effective Date

3. This policy statement is issued by the Department of Finance and Administration in accordance with the authority granted under T.C.A. 4-3-1007 and is effective immediately upon approval. Institutions of the University of Tennessee and the Tennessee Board of Regents are excluded from this policy statement. The Department of Finance and Administration, Payroll Office may develop additional implementation procedures to assist agencies in the administration of this policy.
4. This policy was developed in accordance with the 1986 Internal Revenue Code, Title 26, Chapter 1, and Section 61. These regulations are summarized in Publication 15-B, *Employer's Tax Guide to Fringe Benefits*.

General Rule

5. It is the responsibility of State agencies and departments to report whether fringe benefits and supplemental wages are taxable or not taxable, and to follow procedures established by the Department of Finance and Administration Payroll Office for the proper processing of those benefits. Since the occurrence of fringe benefits may be infrequent, Departments are encouraged to consult with the Payroll Office for guidance on any of these matters.
6. Examples of fringe benefits include certain commuter car benefits, some moving expense reimbursements, personal flights on state-owned aircraft, state paid tickets to entertainment or sporting events, and certain housing/maintenance benefits. Examples of supplemental wages are employee business expense

reimbursements, ex officio services, or allowances under a non-accountable plan such as a home office reimbursement or non-allowable travel expenses.

Other Relevant Finance and Administration Policies

7. The identification of allowable travel expenses is summarized in Policy 8 – Comprehensive Travel Regulations. Housing and maintenance benefits are covered in Policy 16. Allowable moving expenses are treated in Policy 27.

State-Owned Vehicles

8. Departments that provide state-owned vehicles to their employees are required to follow established Department of General Services Division of Motor Vehicle Management policies. Personal use of vehicles by employees is a taxable fringe benefit. In most instances, the taxable benefit of commuting for an employee with a state vehicle will be figured at \$1.50 for each one-way commute. In order to benefit from the “commuting rule” mentioned above, the agency must abide by rules governing this regulation issued in IRS Publication 15-B. Specifically, the agency must provide the vehicle to the state employee for bona fide noncompensatory business reasons, and the employee is required to commute in the vehicle. Other than for commuting and “di minimus” personal use, the vehicle should be used only for official state business.
9. Certain state employees with incomes equivalent to Level 5 of the federal executive service pay scale cannot benefit from the above-mentioned “commuter rule.” The Payroll Office will provide current information on this pay range to agency payroll officers. Agency payroll officers should identify such employees and work with the Payroll Office in determining the taxable benefit of the state vehicle. It is likely that the vehicle’s lease value will be used to determine the taxable benefit to this class of employees.