

**UNIVERSITY OF HOUSTON SYSTEM  
ADMINISTRATIVE MEMORANDUM**

**SECTION: Fiscal Affairs**

**NUMBER: 03.D.06**

**AREA: Payroll**

**SUBJECT: Taxable Fringe Benefits**

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**1. PURPOSE**

- 1.1. The University of Houston System provides a variety of fringe benefits to employees in the course of its business. Such benefits not directly related to business are taxable for both the employer and the employee. Information presented in this administrative memorandum provides basic guidelines for identifying and recognizing taxable fringe benefits and related procedures. This policy is in accordance with Internal Revenue Code Section 132 and its respective treasury regulations.
- 1.2. This document, while primarily designed for employees, may extend to individuals not employed by the university who receive taxable awards, prizes, gifts, or scholarships from the component university. Exhibit A describes the tax treatment of scholarships, stipends and awards/prizes/gifts to employees and non-employees. These guidelines are intended to conform to existing tax laws and are subject to amendment when new tax law changes are issued.
- 1.3. Conditions for a taxable fringe benefit vary according to the type of fringe benefit. Such benefits occur in many forms, ranging from meal allowances to housing allowances. It is imperative that each component university carefully consider the existence of potential fringe benefits as defined in Section 2.1. Disposition of all possible taxable fringe benefits is beyond the scope of this policy. However, see Exhibit C for a comparison of similar taxable and nontaxable fringe benefits. The income tax implications for the more common types of fringe benefits are set forth in the following sections of this document.

**2. GENERAL GUIDELINES**

- 2.1. Fringe benefits occur in connection with the performance of services as supplemental economic gains provided by an employer to employees or third parties. Taxable fringe benefits include staff performance awards, life insurance for key employees, and cash car allowances.

- 2.2. Fringe benefits received in connection with the performance of services are included in gross income unless exchanged for fair market value or specifically excluded by law. Fringe benefits excluded under Section 132(a) of the Internal Revenue Code include:
- a. Services provided at no additional cost to employer;
  - b. Qualified employee discount;
  - c. Working condition fringe; and
  - d. De minimis fringe (A “de minimis fringe” is any property or service (other than cash or its equivalent) whose value is so small that accounting for it is unreasonable or administratively impracticable, taking into account the frequency with which similar fringe benefits are provided by the employer to its employees.) System defines de minimis fringe benefits as non-cash and non-cash equivalent awards, prizes, or gifts equal to or less than \$50 in value.

Fringe benefits excluded by other Internal Revenue Code sections include qualified pension plans, group term life insurance, accident or health benefits, educational assistance and tuition reductions, and dependent care assistance. Individual facts and circumstances are to be considered in meeting the above categories of fringe benefits, as defined by law.

- 2.3. Taxable fringe benefits for employees are to be included with earnings, subject to any FIT and FICA withholding deductions, and reported on Form W-2.
- 2.4. The following types of payments are reported on a Form 1099:
- a. Taxable fringe benefits totaling \$600 or more during a calendar year provided by the component university to an individual not employed by the component university.
  - b. Royalty payments to employees or non-employees, which are paid on a voucher through Accounts Payable, totaling \$10 or more during a calendar year.
  - c. Certain taxable payments to employees for services paid through Accounts Payable on a voucher that total \$600 or more in a calendar year. These services include commissions paid to employees for selling advertisements in component university publications and agency fund payments (fund 9) to employees who conduct athletic camps. All other services performed by employees must be paid through Payroll and reported on Form W-2, unless approved by the System Tax Department.

- 2.5. Internal Revenue Code Section 62(c) requires that all business expense advances or reimbursements (i.e., travel and entertainment) be paid under a documented "accountable plan". This plan must contain provisions for the following:
  - a. A business connection;
  - b. Substantiation, to include amount, time, use, and business purpose; and
  - c. Return of excess payments.
- 2.6. The System's accountable plan for documenting travel and entertainment expenses is detailed in SAMs 03.A.02 Entertainment Expenditures and 03.A.03 Business Travel.
- 2.7. A legal opinion for any tax-exempt housing provided by the System is to be maintained on file with the Office of General Counsel and Tax Department. This opinion will state that such housing is for the convenience of the component, contained on business premises, and required to be accepted as a condition of employment.

### **3. TAXABLE FRINGE BENEFITS TO EMPLOYEES**

- 3.1. Each component university will complete Exhibit B, Taxable Payments or Reimbursements to Employees, when an employee is to receive a taxable fringe benefit that will be reported on the employee's Form W-2, except for fringe benefits identified in paragraph 2.2. above. Exhibit B indicates the method of payment for each fringe benefit. Whether the payment will be made through Accounts Payable or Payroll, the requesting department will forward the completed Exhibit B and supporting documentation to the Tax Department. A Personnel Action Request form is not required for payments through Payroll, since the Exhibit B provides the necessary information.

The Tax Department will verify that the payment is taxable, sign the Exhibit B, and return a copy of the Exhibit B to the appropriate component Payroll Department. Payroll will record the payment as additional taxable income on the employee's payroll record and withhold applicable taxes. If the payment will be made through Accounts Payable on a voucher, the Tax Department will also forward a copy of the Exhibit B and backup to the appropriate Accounts Payable office for processing.

Those payments that are clearly understood to be taxable may be processed through Accounts Payable or Payroll and recorded on the employee's payroll record before submitting the Exhibit B to the Tax Department, though the Exhibit B should be submitted to the Tax Department no more than one week later. If the Tax Department determines that the tax treatment or amount is different than that determined by the component university, the component university will make a correction to the employee's payroll record.

- 3.2. Approved fringe benefits are listed in section 3.3, “a” through “n.” For proper account coding, see Exhibit B. Proposed fringe benefits must be approved by the Chancellor or designee who will consider their purpose, frequency and propriety. Fringe benefits will be reviewed annually and modified at the discretion of the System.
- 3.3. The following is a list of approved employee fringe benefits:
- a. Auto Allowance: Direct payments to employees to lease or purchase an automobile are considered 100 percent taxable income, even if the automobile is used in part for business purposes. These payments are paid through Payroll. Component university payments to a leasing company finance company, or dealership on behalf of an employee are taxable to the extent the vehicle is used for personal use. These payments are made through Accounts Payable. Affected employees will be contacted by the Tax Department and must furnish the necessary information for computing a taxable income allocation.
  - b. Awards, Prizes, and Gifts: Cash awards, prizes, and gifts to employees of any amount are taxable and must be paid through Payroll. Non-cash awards/prizes/gifts greater than \$50 or cash equivalent (i.e., gift certificates) of any amount are also taxable and must be paid through Accounts Payable. See Exhibit A for additional guidelines, as well as employee length of service and safety awards.
  - c. Club Memberships, Personal Use: The personal use of club membership dues provided by the component university is included in an employee’s gross income and subject to employment taxes. The amount of the personal use relating to the membership dues will be determined by the Tax Department by examining personal/business charges on the payment vouchers for the membership dues. Club memberships must be approved by the Chancellor / President or designee.
  - d. Communication Allowance: Direct payments to employees for wireless communication devices and Internet services are considered taxable compensation and accordingly are subject to required tax withholdings (see SAM 03.A.19). Payment of such taxes incurred is the responsibility of the employee and shall not be reimbursed to the employee by the System. A communication allowance is not considered an entitlement, is not part of an employee’s base salary and may be changed and/or withdrawn by the System at any time.
  - e. Discounts Greater than 20 Percent: Discounts to employees for component university events, products, or services that exceed 20 percent of the price offered to the general public are normally taxable. However, these discounts are not taxable if the component university can demonstrate that these discounts do not result in an increased cost to the component.

- f. Housing Allowance: Direct payments to employees to cover housing or utility costs are considered 100 percent taxable income to the employee and paid through Payroll. Housing paid by the component university directly to an apartment complex or mortgage company or otherwise provided by the component university may be excluded from the employee's income if all three conditions are met:
- Housing is on or in close proximity to the component university's business premises;
  - Housing is furnished for the convenience of the component university and for a substantial non-compensatory business reason, such as the employee must be available on a 24-hour basis; and
  - Housing is furnished as a condition of employment necessitated by the proper performance of duties. There is no exclusion if the employee may choose between free housing or a housing allowance.
- g. Human Subject Testing: Direct payments to employees for participating in component university-sponsored research studies or programs are taxable and paid through Payroll. Payments to third parties (i.e., principle investigator) who in turn pay employees are paid through Accounts Payable on a voucher and the payment is recorded as income on the employee's earnings statement. Non-taxable payments to human subjects include travel (account 54817) and other expense (account 54818) reimbursements, which are paid through Accounts Payable and not reported on Exhibit B.
- h. Insurance Premium, Key Employees: Life insurance policies provided by the component university for key employees are paid through Accounts Payable and result in income to the employee. The rules governing the amount of income subject to employment taxes are dependent upon the type of insurance policy provided. The Tax Department is responsible for monitoring the taxability of these premium payments.
- i. Moving Expenses: Moving expenses are paid or reimbursed through Accounts Payable on a voucher. Taxable and non-taxable expenses may be included on the same voucher under separate accounts. The following moving expenses are taxable to the employee:
- House Hunting: The travel cost associated with a new employee and family members looking for a house or apartment in the vicinity of the new place of employment. House hunting reimbursements are limited to one trip of no more than seven days.

- Taxable Non-Direct Expenses: Includes certain expenses associated with transporting the employee and family members to the new home, such as meals and mileage over \$0.20 per mile (for 2007). However, airfare, lodging and mileage up to and including \$0.20 per mile (for 2007) during the trip to the new home are non-taxable.
- Temporary Storage of Household Items Greater than 30 days after Leaving the Previous Home: While storage of items during the first 30 days after leaving the previous home is non-taxable, storage and related insurance costs incurred after 30 days is taxable.

The cost of transporting household items from the previous home (or storage) to the new home (or storage) is non-taxable. If this expense is reimbursed directly to an employee, the Internal Revenue Service requires that this be noted on the employee's Form W-2 as a non-taxable reimbursement.

- j. Non-Overnight Meals: Meal expenses incurred while traveling within Texas or outside of Texas for only one day, without staying in a hotel overnight, are taxable if reimbursed. These expenses should be recorded with other travel expenses on the same voucher and reimbursed through Accounts Payable.
- k. Other Taxable Wages: Includes taxable fringe benefits to employees not included on Exhibit B that have been approved for payment or reimbursement by the Chancellor or designee. Payment will be made through Payroll or Accounts Payable, whichever is appropriate, and coordinated through the Tax Department.
- l. Spousal / Family Travel, Non-Business: If spousal or other family member(s) travel expenses do not qualify as a working condition fringe benefit, the component university payment or reimbursement will be considered to be wages subject to employment taxes. Guidance for spousal travel qualifying as a working condition fringe benefit is provided in SAM 03.A.21 -Employee's Family Travel Expenses.
- m. Travel Advance, Delinquent: Travel advances paid to employees must be accounted for within 180 days after the trip ends or the advance is considered taxable income to the employee. Accounting for an advance includes completing a travel voucher (or other document required by the component university) with an itemization of travel expenses, providing required receipts and supporting documentation for travel expenses, and

returning any portion of the advance to the component university that is greater than allowable, out-of-pocket travel expenses.

- n. Tuition Reimbursement, Not Job Related: If the component university's reimbursement of tuition to an employee is for training or education related to their current position, the reimbursement is non-taxable. However, if the training or education is not job-related, the reimbursement will be considered wages subject to employment taxes. See SAM 03.A.26 Employee Training Program for reporting requirements related to employee training programs lasting three months or more.

#### 4. REPORTING REQUIREMENTS

- 4.1. The System Payroll Department, in its capacity as withholding agent, shall coordinate with the Tax Department to determine the fringe benefits tax reporting obligations of the component university.
- 4.2. To lessen administrative burden at year end, the component university has elected under the special tax accounting rule to treat the value of taxable benefits provided during the last two months of the calendar year as paid in the next year. Thus, the value of benefits actually provided in November and December would be treated as provided together with the value of benefits provided in the first ten months of the following year.
- 4.3. Questions or issues concerning applicable tax laws or withholding agent responsibilities are to be directed to the System Tax Department. This office will oversee the resolution of pertinent matters and coordination of reporting requirements among each of the component universities.

5. REVIEW AND RESPONSIBILITIES

Responsible Party: Associate Vice Chancellor for Finance

Review: Every three years on or before December 1

6. APPROVAL

Approved: John Rudley  
Vice Chancellor For Administration and Finance

Jay Gogue  
Chancellor

Effective Date: February 28, 2006

7. INDEXING TERMS

Auto Allowance  
Awards, Prizes, and Gifts  
Club Membership  
Communication Allowance  
Employee Discounts  
Family Travel  
Housing Allowance  
Human Subject Testing  
Income  
Insurance Premium  
Moving Expenses  
Non-Overnight Meals  
Reimbursements  
Royalty Payments  
Scholarships  
Stipends  
Travel Advance  
Taxable Fringe Benefits  
Tuition Reimbursement  
University Provided Vehicles  
Wages

**Exhibit A  
Tax Treatment of Scholarships, Stipends, and Awards/Prizes/Gifts**

	SCHOLARSHIPS FOR EDUCATION		STIPENDS FOR RESEARCH /COMMUNITY PROGRAMS	AWARDS/PRIZES/GIFTS		
				Cash/Cash Equivalent	Non-Cash > \$50	Non-Cash <= \$50
	<Non-taxed>	<Taxed>	<Non-taxed>	<Taxed>	<Taxed>	<Non-taxed>
Employee (A)	Job-related 54906	Not Job-related 54900	54812	54904	54904 (C)	54907
Non-Employee (A)	55300 – 55318 (B)		54819	54902	54902	54908

- A. Tax withholding may be different for Non-Resident Aliens. See the Tax Department for clarification.
- B. Accounts 55303 (scholarships for on-campus housing) and 55304 (scholarships for off-campus housing) are taxable to the student. All other scholarships to U.S. Citizens and Resident Aliens are non-taxable.
- C. Awards to employees are, for the most part, considered to be wages to the employee and are subject to federal tax withholding, social security tax, and reported along with regular wages on Form W-2. However, an exclusion from income is available to employees receiving length of service or safety awards. The length of service and safety award rules are quite restrictive. The following criteria must be met for an employee length of service or safety award to be considered non-taxable:
  - 1. Applies to Both Length of Service and Safety Awards
    - Only awarded tangible personal property (not cash or equivalent)
    - Does not discriminate in favor of highly compensated employees
    - Annual average cost not greater than \$400 per employee.
    - Awarded as part of a meaningful presentation, not disguised compensation
  - 2. Applies Only to Length of Service Awards
    - Awarded no more than once every 5 years and never during the first 5 years of service
  - 3. Applies Only to Safety Awards
    - Awarded to no more than 10 percent of eligible employees per year
    - Never awarded to management or administration
    - Not awarded to part-time employees or employees with less than 1 year of service.

**Exhibit B**

**Taxable Payments or Reimbursements to Employees**

Employee Name (last name first): \_\_\_\_\_

Title: \_\_\_\_\_ Security Number: \_\_\_\_\_

Employee ID: \_\_\_\_\_ Bus Unit: \_\_\_\_\_

Voucher (if paid through AP): \_\_\_\_\_

Cost Center (if paid through Payroll): \_\_\_\_\_  
\_\_\_\_\_

I acknowledge that some or all of the payment/reimbursement below may be taxable and included in my income.

\_\_\_\_\_  
Employee's Signature Date

Supervisor's Name: \_\_\_\_\_

\_\_\_\_\_  
Signature Date

Cost Center Signature Authority's Name: \_\_\_\_\_

\_\_\_\_\_  
Signature Date

Department Contact's Name \_\_\_\_\_

Phone: \_\_\_\_\_ Fax: \_\_\_\_\_

## Exhibit B (page 2)

Description of Payment/Reimbursement	Method of Payment	PS Account	Payroll Earnings Code	Amount
Auto Allowance, Paid to employee	Payroll	53526	441	_____
Auto Allowance, Paid to third party or provided by the component university	AP	53526	445	_____
Awards/Prizes/Gifts, Cash of any amount	Payroll	54904	125	_____
Awards/Prizes/Gifts, Non-cash > \$50 and cash equivalent of any amount	AP	54904	504	_____
Club membership, Personal use	AP	54802	446	_____
Communication Allowance	Payroll	52817	442	_____
Discount >20 percent, Employee	AP	54816	452	_____
Housing Allowance, Paid to Employee	Payroll	54815	440	_____
Housing Allowance, Paid to third party or provided by the component university	AP	54815	448	_____
Human subject testing, Paid to employee	Payroll	54810	455	_____
Human subject testing, Paid to third party who pays employee	AP	54810	930	_____
Insurance premium, Key employee	AP	54804	447	_____
Moving, House hunting	AP	56122	502	_____
Moving, Taxable non-direct expenses	AP	56121	503	_____
Moving, Temporary storage > 30 days	AP	56123	501	_____
Non-overnight meals in TX	AP	56106	505	_____
Non-overnight meals outside TX	AP	56110	506	_____
Other taxable wage benefits	AP / Payroll	54814	443	_____
Spousal travel, Non-business	AP	56138	454	_____
Travel advance, Delinquent (original payment through AP)	N/A	56127	449	_____
Tuition reimbursement by component university, Not job related	Payroll	54900	453	_____

Tax Department Signature:

Date:

Instructions: Complete form, obtain signatures, attach supporting documentation, and mail (TAX 0907) or fax (713-743-8799) to the System Tax Department.

## Exhibit C

## Most Frequent Taxable / Non-taxable Fringe Benefits

Description of Payment/Reimbursement	PS Account	Payroll Earnings Code	Taxable Benefit To Individual
Auto allowance - Taxable	53526	441 / 445	Yes
Awards, prizes, and gifts, Taxable employee cash	54904	125 / 504	Yes
Awards, prizes, and gifts, Taxable non-employee cash	54902	(Note 1)	Yes
Club membership dues, University provided	54802	446	Yes
Communication allowance - Taxable	52817	442	Yes
Discount >20%, Employee	54816	452	Yes
Housing allowance	54815	440 / 448	Yes
Human subject testing	54810	455 / 930	Yes
Insurance premium, Key employee	54804	447	Yes
Moving - House hunting	56122	502 / 509	Yes
Moving - Taxable: Nondirect expenses	56121	503 / 508	Yes
Moving - Temporary storage > 30 days	56123	501 / 507	Yes
Other taxable wage benefits	54814	443	Yes
Travel - Non-overnight meals in TX (only UHD and UHC)	56106	505	Yes
Travel - Non-overnight meals outside TX (only UHD and UHC)	56110	506	Yes
Travel - Spousal travel (non-business)	56138	454	Yes
Travel advance, Delinquent	56127	449	Yes
Tuition reimb. by University - not job related, Employee	54900	453	Yes
Auto rental - Nontaxable	53513	N/A	No
Auto lease - Nontaxable	53514	N/A	No
Auto capital lease - Nontaxable	53515	N/A	No
Awards, prizes, and gifts, Employee nontaxable (nontax < \$50)	54907	N/A	No
Awards, prizes, and gifts, Non-employee nontaxable (nontax < \$50)	54908	N/A	No
Communication air time/roaming – business only – Nontaxable	52816	N/A	No
Communication equip. < \$5,000 – business only – Nontaxable	54360	N/A	No
Communication equip. rental – business only – Nontaxable	53506	N/A	No
Medical insurance for new employee for first 90 days	54909	N/A	No
Moving - Direct payment to moving company	54806	N/A	No
Moving - Nontaxable: Directly related expenses	56120	N/A	No
Moving - Temporary storage < 30 days	56132	N/A	No
Stipends for research, Employee	54812	N/A	No
Stipends for research & community service, Nonemployee	54819	N/A	No
Travel - Expense for interviewee	56119	N/A	No
Travel - Out of state incidentals	56112	N/A	No
Travel - Out of state mileage	56109	N/A	No
Travel - Out of state per diem	56113	N/A	No
Travel - Per diem in Texas	56105	N/A	No
Tuition reimb. by University - job related, Employee	54906	N/A	No

(Note 1 - Recipient is not a University employee. Consequently, taxable benefit should be reported on Form 1099-MISC if greater than \$600.)