

Chapter 17 – Tax Withholding and Reporting Requirements

Tax Withholding and Reporting Requirements

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References: [California Department of Human Resources \(CalHR\) PML 2004-15](#), [State Controller's Office \(SCO\) Payroll Letter 18-002](#), [Payroll Letter 18-003](#), [Payroll Letter 12-022](#), [Payroll Letter 14-021](#), and [State Controller's Office \(SCO\) Payroll Procedure Manual Section N120](#)

FRINGE BENEFITS AND EMPLOYEE BUSINESS EXPENSES

Fringe Benefits (FB) and Employee Business Expenses (EBE) are defined as something additional to regular pay, which an employee receives from an employer. Types include cash, cash equivalents, goods, property and services and most often represent taxable, reportable income.

Departments must comply with reporting and withholding requirements cited in the State Controller's Office (SCO) Payroll Procedures Manual, Section N120.

TAX WITHHOLDING RATES

Federal, 22%	Medicare, 1.45% (if applicable)
State, 6.6%	State Disability Insurance (SDI), 0.9% (if applicable)
Social Security, 6.2%	

All withholding adjustments will appear in a regular payroll warrant with the exception of some moving and relocation payments. Federal and State tax for moving and relocation will be withheld from the Travel Expense Claim (TEC) reimbursement check unless otherwise noted. Amounts for Social Security, Medicare, and State Disability Insurance will be withheld from a future payroll warrant.

EMPLOYEE WAGE AND TAX STATEMENT FORM W-2

All reportable FB and EBE payments issued to employees in a calendar year must be reflected on the Wage and Tax Statement Form W-2.

Federal and State taxes will not be withheld from payroll for payments reported between November 10th and December 31st due to year-end processing deadlines. However, payments during this period will appear as income on the employee's Form W-2.

Payments issued in the month of December will result in the issuance of a corrected Wage and Tax Statement (Form W-2C). All amounts for applicable Social Security, Medicare, and SDI will be withheld from a future payroll warrant.

FB/EBE REPORTABLE PAYMENTS

The Division of Accounting, Travel Payments and Policy Section, is responsible for reporting the following FB/EBEs:

Bicycle Mileage

Reimbursement for business use of an employee-owned bicycle is reportable and taxable income.

Call Back Mileage

Reimbursement for personal commute mileage due to a call back to the office after completing a normal work shift and working overtime on a normal day off is reportable and taxable income.

Employee Occupied State Housing

The difference between the Fair Market Value (FMV) of employer housing and employee paid rent (when lower than FMV) is reportable/taxable income. Employer-owned housing units include houses, apartments, dormitories, mobile homes, trailers, mobile home pads, trailer spaces, etc.

Long-Term Travel, Indefinite Assignments

Reimbursement or direct payment to third parties for meals, lodging, mileage, etc. for indefinite long-term travel assignments (assignments over 365 days) is reportable and taxable income.

If the assignment is expected to last over 365 days, the benefits are reportable and taxable regardless if it is later determined that the assignment will be less than 365 days.

If the initial assignment is 365 days or less and then is later determined to last over 365 days, reimbursements become immediately reportable and taxable.

For more information, see Taxation for Long-Term Assignments.

Meals and Lodging, 50-Mile Limit Exceptions

Reimbursements for meal and lodging expenses incurred less than 50 miles from either home or headquarters that does not involve an overnight stay are reportable and taxable income.

Meals Less Than 24 Hours

Reimbursement for meals for travel of 24 hours or less without an overnight stay is reportable and taxable income.

Moving and Relocation

The following moving and relocation payments are always considered reportable and taxable income:

- Lease settlements.

- Mileage reimbursements.

- Per Diem (lodging, meals, and incidentals).

- Sale of the old residence.

- Storage over 30 consecutive days after moving out of residence (not including storage-in-transit).

Outstanding Travel Advances

Employees must return excess amounts within 120 days or an immediate tax liability will be reportable and taxable for those amounts. If an employee substantiates and returns excess advances after the employer has treated amounts as wages, the employer is not required to return any withholding or treat amounts as non-taxable.

Overtime Meals

Reimbursement for overtime meals, including arduous meals, is reportable and taxable income.

Personal Use of State-Owned and Leased Vehicles

The value of personal use of a state-owned or leased vehicle (PUSV) is reportable and taxable income. Personal use includes miscellaneous non-business trips and daily work commutes.

Employers must apply facts and circumstances on a case-by-case basis to determine taxable personal use.

Private Aircraft Mileage

Reimbursement for business use of an employee-owned aircraft is reportable and taxable income.

Bicycle Commuter Program

Payment for the Bicycle Commuter Program is a reportable and taxable benefit to eligible employees who use their bicycles for commuting to work at least 50% of the scheduled work days.

Taxation for Long-Term Assignments

References: [State Controller's Office \(SCO\) Payroll Procedure Manual N 141, N141.1 and N141.1.2.](#)

INTRODUCTION

Long-term assignments are classified into two categories: Temporary and Indefinite Assignments. 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.

TEMPORARY ASSIGNMENTS

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 (365 days) or less.

Travel reimbursements for meals, lodging, transportation, etc., while on temporary assignments are not taxable income to the employee.

An assignment becomes taxable:

If an employer initially assigns an employee to a temporary assignment and later determines that the assignment is now expected to last more than one year, reimbursements are immediately taxable from that day until the end of the assignment. See example below.

Example:

Original Assignment Dates	Taxable	Date of Change to Assignment Dates	New Assignment Dates	Taxable
01/05/2005 - 09/30/2005	No	08/31/2005	01/05/2005 - 03/05/2006	Yes, effective 8/31/2005

No adjustments are made to previously non-taxed reimbursements.

INDEFINITE ASSIGNMENTS

Indefinite Assignments are defined as employment away from home in a single location wherein the employment assignment is realistically expected to last more than one year.

Travel reimbursements for meals, lodging, transportation, etc., while on indefinite assignments are taxable income to the employee.

Travel expenses incurred while on short-term business away from the LTA location are not reported as taxable income.

If at the time of the assignment, it is expected to last more than one year, the benefits are taxable from the start date of the assignment regardless of the actual length of the assignment. See example below.

Example:

Original Assignment Dates	Taxable	Assignment Actually Ends	Taxable
01/05/2005 - 03/05/2006	Yes	08/31/2005	Yes

No adjustments are made to previously taxed reimbursements.

See Tax Withholding and Reporting Requirements for applicable tax rates.

BREAKS IN ASSIGNMENTS

Short breaks in either Temporary or Indefinite Assignments do not automatically create a new assignment. The Internal Revenue Service and the U.S. Supreme Court have ruled that breaks between assignments as long as four to six weeks within a 12-month period do not necessarily terminate a long-term travel Indefinite Assignment for tax purposes. Employers must consider the facts and circumstances to determine the true intent of the assignment.

An employee's return home for weekends or incidental short-term travel to another location does not break the continuity of a long-term assignment.

CHANGES TO ASSIGNMENTS

For information regarding changes to assignments, employees should:

See Chapter 5 - Long-Term Assignment Information and Certification of Subsistence Rates.

If applicable, see Chapter 5 - Long-Term Assignment Differential.