

**UNIVERSITY OF HOUSTON SYSTEM
ADMINISTRATIVE MEMORANDUM**

SECTION: Fiscal Affairs

NUMBER: 03.D.06

AREA: Payroll

SUBJECT: Taxable Fringe Benefits

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. 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 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. Exhibit A can be found on the Tax Department website <http://www.uh.edu/office-of-finance/tax-information/> under the Taxable Fringe Benefits section.
- 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 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, reference [Exhibit C](#) found on the Tax Department website under the Taxable Fringe Benefits section, for a comparison of similar taxable and non-taxable 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 [Federal Income Tax](#) (FIT) and [Federal Insurance Contributions Act](#) (FICA) withholding deductions, and reported on Form W-2. Employees may request to have taxable fringe benefits applied in one or four consecutive monthly installments in accordance with the [IRS reporting requirements](#).
- 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 university to an individual not employed by the 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 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 the Tax Department. This opinion will state that such housing is for the convenience of the university, contained on business premises, and required to be accepted as a condition of employment.

3. TAXABLE FRINGE BENEFITS TO EMPLOYEES

- 3.1. All taxable payments or reimbursements to employees must be documented by the department and acknowledged in writing by the employee on Exhibit B provided by the System Tax Department, available on the Tax Department website under the [Taxable Fringe Benefits](#) section. The form shall be timely submitted to the Tax Department for review and verification, in accord with procedures on the Tax Department website <https://www.uh.edu/office-of-finance/tax-information/taxable-fringe-benefits/taxable-fringe-benefit.pdf>.
- 3.2. Approved fringe benefits are listed in Section 3.3, “a” through “n.” For proper account coding and procedure on properly processing each type of fringe benefit, see Exhibit B on the Tax Department website under the Taxable Fringe Benefits section. 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. University payments based upon the vehicle’s fair market value benefit 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.

- b. Awards, Prizes, and Gifts: Cash awards, prizes, and gifts to employees of any amount are taxable. Non-cash awards/prizes/gifts greater than \$50 cash or cash equivalent (i.e., gift cards) of any amount are also taxable. See Exhibit A posted on the Tax Department's website under the Taxable Fringe Benefits section, <http://www.uh.edu/office-of-finance/tax-information/taxable-fringe-benefits/> 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 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. The University will comply with all laws applicable to this subject. 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 employment tax withholding (see SAM 03.A.19). 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 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 university can demonstrate that these discounts do not result in an increased cost to the university.
- f. Housing Allowance: Direct payments to employees to cover housing or utility costs are considered 100 percent taxable income to the employee. Housing paid by the university directly to an apartment complex or mortgage company or otherwise provided by the university may be excluded from the employee's income if all three conditions are met:
 - Housing is on or in close proximity to the university's business premises;
 - Housing is furnished for the convenience of the 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 university-sponsored research studies or programs are taxable. Instructions regarding payments to third parties can be found on the Tax Department website <http://www.uh.edu/office-of-finance/tax-information/taxable-fringe-benefits/> (under the Taxable Fringe Benefits heading).
- h. Insurance Premium, Key Employees: Life insurance policies provided by the university for key employees are taxable. 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. Refer to the Tax Department website for additional information (the [Taxable Fringe Benefits Matrix](http://www.uh.edu/office-of-finance/tax-information/) under the Taxable Fringe Benefits heading) at <http://www.uh.edu/office-of-finance/tax-information/>.
- i. Moving Expenses: All moving relocation expenses are taxable to the employee. Refer to the Tax Department website under the heading Moving and Relocation, for payment procedure <http://www.uh.edu/office-of-finance/tax-information/moving-and-relocation/>. Note: Moving relocation payments are not allowed on the Travel Card or Procurement Card. 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.
 - Temporary Storage: Temporary storage for up to 30 days of household items, before and after leaving the previous home.
 - The cost of transporting household items from the previous home to the new home is taxable. This includes payments made directly to the moving company by the employer. The Internal Revenue Service requires that this be noted on the employee's Form W-2 as taxable income.
- Personal car mileage should be calculated by the current rate specified by the IRS. The IRS mileage rate can be found on the UH Tax Department website: <https://uh.edu/office-of-finance/tax-information/moving-and-relocation/>. Employee is only allowed to claim either mileage or gas

receipts, not both. Only members of same household are allowed to claim mileage 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.
- k. Other Taxable Wages: Occasionally, there might be taxable benefits to employees not included elsewhere on Exhibit B that have been approved for payment or reimbursement by the Chancellor or designee. Instructions for properly processing these benefits are included in Exhibit B on the Tax Department website under the Taxable Fringe Benefits section.
- 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 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 120 days after the trip ends or the advance is considered taxable income to the employee.
- n. Tuition Reimbursement, Not Job-Related: If the 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 02.A.41 - 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 university.
- 4.2. To lessen administrative burden at year end, the university has elected under the special tax accounting rule [IRS Ann. 85-113; Reg. 1.61-21\(b\)\(7\)](#) 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.

