
HOGAN • HANSEN

A Professional Corporation

Certified Public Accountants and Consultants

December 2017

To Our Clients:

RE: - 2017 W-2 REPORTING REQUIREMENTS FOR FRINGE BENEFITS TO BE ADDED TO EMPLOYEES' W-2 AS COMPENSATION

- SPECIAL RULES FOR S-CORPORATION SHAREHOLDERS

In this letter, we will discuss the following topics which may require inclusion of additional compensation subject to payroll tax on the 2017 W-2 of your employee:

1. GROUP TERM LIFE INSURANCE
2. S-CORPORATION SHAREHOLDERS, SPECIAL RULES
3. NONACCOUNTABLE EXPENSE ALLOWANCES
4. CLUB DUES
5. TRAVEL EXPENSES OF SPOUSE OR COMPANION
6. MOVING EXPENSE REIMBURSEMENTS
7. PERSONAL USE OF COMPANY OWNED AUTOMOBILES

As outlined to you in correspondence of prior years, various employee benefits, fringe benefits, and the personal use of autos by employees must either be reimbursed to the employer or added to the employee's W-2 as additional compensation subject to payroll taxes.

GROUP TERM LIFE INSURANCE

In some situations, employer paid group term life insurance benefits must be included on the employee's or officer's W-2. Group term life insurance premiums paid on coverage exceeding \$50,000 (where the employer is not the beneficiary of the policy) results in **taxable** compensation. The amount determined as compensation must be included on the employee's W-2 as compensation and is also reported in box 12 using code C. The rates in the table on the next page should be used to calculate the benefit for 2017 to arrive at the W-2 compensation amount. An example of a computation is scheduled below:

Insurance Coverage	\$	80,000
Less:		(50,000)
Coverage over \$50,000		<u>30,000</u>
Divided by \$1,000		<u>1,000</u>
		30
Times months	X	<u>12</u>
		360
Factor rates per tables on next page, assume age 52 for this example	X	<u>0.23</u>
Computed W-2 compensation	\$	<u><u>82.80</u></u>

GROUP TERM INSURANCE COVERAGE RATES (Reg. 1.79-3(d)(2))

2017

<u>Age of Insured</u>	<u>Table 1 Rates</u>
Under 25	\$.05
25 - 29	.06
30 - 34	.08
35 - 39	.09
40 - 44	.10
45 - 49	.15
50 - 54	.23
55 - 59	.43
60 - 64	.66
65 - 69	1.27
70 and above	2.06

S-CORPORATION SHAREHOLDERS

S-Corporation shareholders who own a 2% or greater interest in the corporation are taxed on the following fringe benefits they receive from the corporation: health insurance, 100% of group term life insurance, disability insurance, meals or lodging furnished for the employer's convenience, and tax-free benefits provided under a cafeteria plan. It is important to remember that 2% or greater shareholders are not eligible for cafeteria plan benefits.

We recommend the S-Corporation accounts for the shareholder fringe benefits in one of the following methods. The first is as additional W-2 compensation. The additional compensation is subject to FICA and other payroll taxes, with the exception of health insurance which is not subject to FICA if similar health insurance coverage is offered on a nondiscriminatory basis to all employees. However, if the health insurance coverage is offered to only highly compensated employees (i.e. shareholders), the premiums are deemed to be compensation subject to FICA taxation. The second method of accounting for shareholder fringe benefits is to have the shareholder reimburse the corporation for the cost of the fringe benefits. This method results in no additional W-2 compensation to the shareholder.

Rules for health insurance for 2% S-Corporation shareholders remain unchanged per IRS Notice 2015-17. This guidance states that if S-Corporations reimburse their greater than 2% shareholders for their health care premium cost, that it will not be challenged by the IRS unless further guidance is provided. S-Corporations may not reimburse non-2% shareholder employees for health insurance premiums of a non-employer sponsored group health plan without being subject to substantial excise tax penalties after June 30, 2016.

NONACCOUNTABLE EXPENSE ALLOWANCES

Please review any nonaccountable expense allowances that you may have. A nonaccountable expense allowance includes a payment or allowance to an employee for travel, auto mileage, or customer entertainment where the employee has no requirement to substantiate the business use of the allowance to the employer. The sum of nonsubstantiated expense allowances not refunded to the employer in a reasonable period is considered as compensation subject to payroll tax and withholding.

CLUB DUES

Generally, no deduction is allowed on the employer's tax return for any club dues if the club is organized for business, pleasure, recreation or some other social purpose. The IRS has announced that taxpayers may still deduct dues paid to professional organizations (e.g., ABA, AICPA, AMA), civic or public service organizations (e.g., Kiwanis, Lions, Rotary, business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards). Of course, as in prior years, these dues are deductible only if they are ordinary and necessary expenses for carrying on the taxpayer's trade or business.

Taxpayers have the option of three methods in which to handle nondeductible club dues that have been paid directly to the club on behalf of the employee:

Method 1: The taxpayer treats the entire amount of dues paid as reportable W-2 compensation to the employee, subject to FICA, federal income tax withholding, and FUTA taxation.

Method 2: The substantiated business portion of the club dues paid for an employee is not required to be reported as W-2 compensation to the employee. The substantiated business portion of the dues is not deductible by the employer. The remaining personal portion must be reported as W-2 compensation to the employee, subject to FICA, federal income tax withholding, and FUTA. Please contact us if you have questions regarding substantiation of the business portion of club dues.

Method 3: The employee may choose to reimburse the taxpayer for the entire amount of nondeductible club dues paid on his behalf rather than having additional W-2 income.

In instances where the employer reimburses the employee for club dues, the reimbursement fails the business connection requirement and the entire reimbursement is treated as compensation to the employee.

TRAVEL EXPENSES OF SPOUSE OR COMPANION

Travel expenses paid by a business for spouses, companions, or relatives are not deductible unless they are bona fide employees, the travel is for a bona fide business purpose, and the expenses would be otherwise deductible as a business expense by the spouse, etc. Temporary IRS regulations state that nonbusiness related travel expenses incurred for a spouse or other nonemployee must be added to the W-2 compensation of the employee. This rule is subject to the same general rules outlined above for club dues.

MOVING EXPENSE REIMBURSEMENTS

Reimbursements (including payments made directly to a third party and services furnished in kind) for an employee's moving expenses are reported as follows:

- **Qualified** moving expenses paid directly to a third party on behalf of the employee and in kind services furnished by the employer to an employee are not reported on Form W-2. Qualified moving expense reimbursements paid directly to an employee are reported in box 12 using Code P. Qualified moving expenses are reimbursements for moving expenses that would have been deductible by the employee if he or she had paid them.
- Other moving expenses paid to an employee that would not qualify for deductible items on his or her own 1040 return are includable in wages and are subject to payroll taxation.

PERSONAL USE OF COMPANY OWNED AUTOMOBILES

Attached is a form for employees to complete which summarizes the personal, commuting, and business miles driven during 2017, as well as other information to be used in completing the employer's tax return. Please note that this applies to leased as well as owned vehicles. Please make additional copies of this form for all employees who are required to report this information.

Although taxable fringe benefits (e.g., personal use of company car) must be reported by the employee in the tax year received, the employer may elect to treat fringe benefits provided in the last two months of the calendar year as occurring in the following year. This would allow the employee to defer paying taxes on two months worth of benefits received in 2017 until 2018. If you are interested, please call us so that we can advise you on the election and notification requirements. This will also allow you to determine the fringe benefit early in December instead of waiting until later in the year. If the employee reimburses the employer for personal use of a company asset, a receivable for the reimbursement should be established before the calendar year end.

Please review the attached material and complete the questions for personal usage of autos. This information is required in order to compute the value of the fringe benefits to be added to the 2017 annual W-2 for the employee.

Please note that if the cents-per-mile method is being used, the rate for 2017 is 53.5¢ per mile for January 1, 2017 through December 31, 2017. The cents-per-mile method may be used only for employer provided vehicles that are either regularly used in the employer's business or actually driven primarily by employees at least 10,000 miles during a calendar year. The cents-per-mile method is available only if the fair market value, as of the date it's first made available to any employee for personal use in 2017, does not exceed an annually adjusted amount, \$16,000 for a passenger auto and \$17,500 for a truck or van for 2017. In addition, this compensation is also subject to FICA and Medicare tax (both by employee and employer) and other payroll taxes. Payroll tax related to this additional compensation must be timely deposited and included on the quarterly 941 form.

If you need assistance in computing the fringe benefit to be added to the employee's W-2 or for personal use to be reimbursed by the employee, please contact us.

SEPARATE W-2's

Employers may, if they choose, include the value of the fringe benefits (and any other information relating to benefits) on a separate Form W-2. Employers may report to employees the total value of the fringe benefits provided in the calendar year in box 14 of the Form W-2.

W-2 FILING DATE

The due date for filing Forms W-2 (and Forms 1099-MISC containing non-employee compensation) with the SSA (or IRS) is January 31, 2018.

Please contact your client relationship manager if you have any questions related to the contents of this letter. We also wish to emphasize your additional responsibilities and reporting requirements under the Affordable Care Act.

Sincerely,

HOGAN - HANSEN

Hogan - Hansen, P.C.

FRINGE BENEFIT FOR PERSONAL USE OF EMPLOYER PROVIDED VEHICLE

EXAMPLE

ABC Company provides an automobile to employee X. The automobile has a fair market value of \$22,000 at January 1, 2017. X drives the car 11,000 miles during 2017, of which 60 percent is business usage. X also pays his employer \$50 per month as reimbursement for the personal use of the car. ABC Company provides the gasoline for the car. The value of X's fringe benefit is determined as follows:

Annual lease value per table	\$ 6,100
Business use excluded as a working condition fringe benefit (60% x \$6,100)	(3,660)
X's payments to ABC Company for personal usage	<u>(600)</u>
Subtotal	1,840
Value of gasoline provided by ABC Company	
Personal miles (11,000 x 40%) x 5.5¢ per mile or Fair Market Value	<u>242</u>
Amount employee X is required to include in gross income as a taxable fringe benefit	<u><u>\$ 2,082</u></u>

Annual lease value table*

<u>Automobile Fair Market Value</u>	<u>Annual Lease Value</u>	<u>Automobile Fair Market Value</u>	<u>Annual Lease Value</u>
\$ -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		

* Regs. Sec. 1.61-21(d)(2)

** For vehicles having a fair market value in excess of \$59,999 the annual lease value is equal to (0.25 x FMV of auto) + \$500.

EMPLOYEE QUESTIONNAIRE CONCERNING USE OF COMPANY CARS

(To be completed by employees who use company cars)

To properly complete our company's income tax return and/or to properly prepare your W-2 for the year, we must have the following information:

Please return the questionnaire to _____ no later than _____.

Note! If we do not receive the questionnaire by _____, you will be presumed to have used the auto 100 percent for personal purposes and 100 percent of the auto's use value for the year will be included in your W-2 as wages.

Please use exact miles (excluding tenths). Do not use round numbers (e.g., 10,000 miles)

- 1. Total business miles driven during the year?
(DO NOT include commuting miles) _____

- 2. Total commuting miles driven during the year? _____

- 3. Total other personal (non-commuting) miles driven? _____

- 4. Total miles driven during the year? _____

- 5. Was the vehicle available for personal use? _____

- 6. Was the vehicle used primarily by a more than 5% owner or related person? _____

- 7. Is another vehicle available for personal use? _____

- 8. Do you maintain written records to support business use? _____

- 9. Does the employer prohibit personal use of the vehicle, including commuting by employee? _____

- 10. Does the employer prohibit personal use of the vehicle except for commuting by the employee? _____

Date

Employee Signature