

FINANCE AND ADMINISTRATIVE SERVICES OPERATING PROCEDURE

02/26/03

FASOP: AS-12

Subject: Accounting for Employee Fringe Benefits

Scope: All offices of Louisiana State University and A&M College and other campuses served by Louisiana State University and A&M College, Office of Accounting Services.

Purpose: To establish policies and procedures for the accounting of certain employee fringe benefits provided by the University for income and employment tax purposes in accordance with the Internal Revenue Code.

Effective: Upon receipt of this procedure statement.

General Policy: Louisiana State University and A&M College provides to various employees certain fringe benefits funded directly with University funds and indirectly through funding from affiliated support organizations, including—but not limited to—the LSU Foundation, the Alumni Association and the Tiger Athletic Foundation. Any reference to the "University" is intended to include the LSU and A&M campus and affiliated support organizations. As set forth in the Internal Revenue Code, certain of these fringe benefits are *excluded* from an employee's gross income and are not subject to social security, medicare, federal employment taxes, or income tax withholding. Those fringe benefits *not explicitly excluded* from gross income are to be treated as income and as such are subject to social security, medicare, and federal employment taxes, and income tax withholding.

The procedures contained herein distinguish those fringe benefits to be *included* in an employee's gross income from those which are to be explicitly *excluded*. This document is not intended to determine under which circumstances the University provides such fringe benefits nor which employees are to receive them.

Procedures:

A. Benefits to be Excluded from an Employee's Gross Income

The following types of fringe benefits, if provided by the University, are *excluded* from an employee's gross income and are not subject to social security, medicare, federal employment taxes, or income tax withholding.

1. **No-Additional-Cost Service** – a service offered for sale to customers in the course of the University's business which is provided to the employee at no substantial additional cost to the University, including lost revenue.
2. **Qualified Employee Discount** – a discount provided to employees of not more than 20% of the price for which a service is offered to customers or not more than the University's gross profit percentage for any product offered.
3. **Working Condition Benefit** – property or service provided to an employee which would qualify for deduction as a business expense had the employee, rather than the University, paid for the property or service. Examples of working condition fringe benefits are dues for professional organizations and job related education.
4. **De Minimis Benefit** – a service or item of such a small value that accounting for the benefit is unreasonable

and administratively infeasible. Examples of *de minimis* fringe benefits are occasional use of the company copier or traditional holiday gifts of small value.

5. **Qualified Transportation Benefit** – includes transit passes, transportation in a commuter highway vehicle to and from work and qualified parking at or near the place of work, subject to specified conditions and dollar limitations as set forth in the Internal Revenue Code
6. **Qualified Moving Expense Reimbursement** – any amount received, directly or indirectly, by a University employee as payment for, or reimbursement of, expenses that would be deductible as qualifying moving expenses as set forth in the Internal Revenue Code if paid or incurred by the employee
7. **On-Premises Gym or Other Athletic Facility** – use of such a facility provided and operated by the University, provided that substantially all of the use of the facility is by the employee, their spouse and their dependent children
8. **Qualified Tuition Reduction** – as set forth in the Internal Revenue Code, a reduction in tuition provided by an educational organization to its employees.

B. Benefits to be Included in an Employee's Gross Income

Those fringe benefits provided by the University which are not described in one of the categories delineated in A. are to be *included* in an employee's gross income and are subject to all applicable employment taxes as well as income tax withholding. Such benefits include, but are not limited to:

1. **Personal Use of Automobile** – The value of an employee's personal use of an automobile provided by the University must be *included* in the employee's income. A University provided automobile is one which is owned or leased by the University, or owned or leased by a third party and made available for an employee's use, or owned or leased by the employee and for which the University is responsible for payments to purchase or lease the automobile. Each employee assigned a vehicle must file a monthly report with the Payroll Section of Accounting Services. The standard form for reporting mileage is included as Appendix A. The report must be received by the tenth day of the following month. If an employee does not submit the required report to Payroll by the due date, full value will be assigned. For the annual lease value method, 1/12 of the annual lease value will be used. For commuting only, \$3 for each work day of the month will be assigned.

In accordance with Internal Revenue Service regulations, the fair market value of personal use must be determined using one of the following special valuation rules:

- a) **Annual Lease Valuation Rule** - This method is to be used by employees who use the vehicle for personal use, other than commuting, or who are control employees. Employees are required to maintain a detailed log of all personal and business usage of the vehicle and must keep this documentation on file for seven years and make it available upon request. A mileage log is included as Appendix B. Each employee is required to provide a breakdown showing business miles and/or personal miles traveled each month.

Under this method, a portion, based on actual personal use, of a pre-determined lease value is *included* in the employee's income on an annualized basis. A pro rata charge, based on the total annual value, is included in the employee's income for each pay period. An explanation of the taxable income calculation is provided as Appendix C. The pre-determined lease value is established by guidelines published and updated periodically by the Internal Revenue Service and is based on the Fair Market Value of the vehicle. Appendix D contains the current IRS Annual Lease Table.

For a vehicle assigned to an employee for business and personal use or for a vehicle assigned to a control

employee, the Fair Market Value (FMV) of the vehicle must be determined on the first day the vehicle is made available to any employee for personal use. FMV is the amount the employee would have to pay a third party in an arm's length transaction to buy or lease the vehicle, including sales tax and title fees. FMV will be based on the manufacturer's suggested retail price, if provided; otherwise, FMV will be established by using the National Auto Dealers Association value. The FMV of the vehicle will be reestablished on January 1 of every fourth full calendar year following the date the vehicle was made available to the employee. If the vehicle is transferred from one employee to another, the FMV of the vehicle will be reestablished on January 1 of the calendar year of the transfer.

Fuel - The annual lease value does not include the value of fuel provided by the University. In cases where fuel is provided, the value of fuel for personal usage will be *included* in the employee's income at a rate of 5.5 cents per mile.

- b) Commuting Valuation Rule** - This method is to be used by those employees who are required to use the vehicle to commute only and who are not control employees. (A control employee is any government employee whose compensation equals or exceeds Federal Executive Pay Level 5—currently \$117,600). Employees are required to report the number of days the vehicle is used to commute each month. The additional income will be calculated using the \$3 per day commuting valuation method as prescribed in the Internal Revenue Code. **These employees may not use these vehicles for personal purposes other than for commuting or *de minimis* personal uses, such as a stop for a personal errand on the way between a business stop and the employee's home**
- 2. Personal Use of Cellular Phones**—The approval process for the acquisition of cellular telephone service has been delegated to the Chancellor by the Division of Administration, through the Director of the Office of Telecommunication Management. To obtain cellular telephone service the request must be authorized by the appropriate Dean or Director and approved by the Chancellor using Form AS542, Request for Cellular Telephone Service. Utilization of the cell phones must be in compliance with the guidelines and procedures established in this policy.

Deans or Directors are responsible for controlling the usage of cellular telephone service and must determine the cellular usage requirements for employees under their supervision. Cellular service must include subscription to the call-detail monthly utilization reporting feature.

In accordance with University policy, all calls should be limited to University business. The cell phones should be used only when no other means of communication is available and the length of conversations should be limited. Personal calls must be reimbursed with a check made payable to Louisiana State University in the following instances.

- a) In the event total minutes utilized exceeds the plan limit. Reimbursement should be based on personal call utilization up to, but not greater than the cost of the minutes that exceed the plan. No reimbursement is required when total plan minutes are not exceeded.
- b) Any assistance, roaming charges or other miscellaneous charges which are not clearly business related.

Each month a copy of the monthly utilization reporting for each cell phone subscriber will be provided to each unit. The Dean/Department Head is responsible for assuring that each employee (user) has reviewed and signed their monthly utilization report. Each employee must acknowledge the personal phone calls made on the cell phone that month and a check for the personal costs greater than the plan limit should be attached to the reviewed monthly utilization report.

Each monthly utilization report is signed by the Dean/Department Head after all employees have completed

their review.

The checks for personal usage should be deposited by the Department as an offset to the cellular telephone expense. The reviewed and approved monthly utilization reports should be maintained in the department business office, and must be available in the event of an audit. The utilization reports are considered to be public documents, and must be made available in the event of a request for public information.

The Dean/Department Head should periodically review the cellular plans of the users in their unit to be certain that the most cost effective plan is being utilized for the employee's business needs.

Employees found to have violated this policy may be subject to disciplinary action, up to and including termination.

- 3. Reimbursement of Non-Business-Related Travel and Entertainment Expenses** - In order for University-related travel expenses incurred by an employee and reimbursed by the University to be *excluded* from an employee's income as a working condition fringe benefit, such expenses must have a bona fide business purpose and the employee must substantiate the expenses. In order to be *excluded* from an employee's income, travel expenses for an employee's spouse or other individual traveling with the employee must also have a bona fide business purpose directly benefitting the University and must be substantiated by the employee. It should be noted that in the vast majority of cases, spouse-related travel expenses reimbursed by the University will be *included* in an employee's income.

Reimbursement to an employee for meals and entertainment generally will *not be included* in an employee's income provided there is a business purpose for such expenses. The employee is required to timely substantiate the reimbursed expenses and return within a reasonable period of time any amounts reimbursed which exceed the amount of substantiated expenses. Expenses must be ordinary and necessary and incurred in the regular conduct of business. Further, the expenses must be directly related to, or in association with, the active conduct of business.

- 4. Non-Qualified Moving Expenses** – Only those moving expenses which are reimbursed to an employee by the University or paid to a third party on behalf of the employee, and which qualify as deductible employment related expenses in the Internal Revenue Code are *excluded* from an employee's income. Any other moving expenses which are reimbursed by the University or paid to a third party on behalf of the employee must be *included* in the employee's income.

In general, only those expenses for transportation and the costs of physically moving household goods qualify as deductible under the Internal Revenue Code. All other moving expenses, including but not limited to all expenses associated with pre-move house hunting trips, temporary housing, meals while traveling from the old home to the new home, and storage charges are not deductible and, as such, are *included* in an employee's income if reimbursed by the University or paid to a third party on behalf of the employee. Appendix E is a form used by the Office of Accounting Services to calculate the amounts to be included in an employee's income. This form is completed by Accounting Services subsequent to employee reimbursement for moving expenses by the University or payment to a third party on the employee's behalf.

- 5. Personal Use Portion of Membership in Certain Social Clubs** - In general, membership dues reimbursed to an employee, or paid by the University on behalf of an employee, are *excluded* from the employee's income as a working condition fringe benefit, provided the dues are for membership in a professional organization or civic or public service organization, such as Kiwanis, Rotary, Lions and similar organizations.

Payment of membership dues for any club organized for a social purpose must be *included* in an employee's income to the extent that the payment is not related to a business purpose. Examples of clubs organized for

a social purpose are country clubs and golf and athletic clubs. In order for a portion of the club dues to be *excluded* from an employee's income as a working condition fringe benefit, the employee must substantiate and document the specific business purpose for that portion of the club dues. For each monthly statement the employee must substantiate the business purpose of business-related charges and indicate any personal charges. Personal charges are the responsibility of the employee and should be remitted directly to the club. Dues related to the personal use of the club will be *included* in the employee's income on a pro rata basis.

6. **Employer Provided Meals and Lodging** - Generally, the value of meals and lodging furnished to an employee by the University is *excluded* from the employee's income if the meals are furnished on University premises and at the convenience of the University. Meals and lodging are furnished for the convenience of the University if they are provided for a substantial non-compensatory University business reason. Meals are provided to employees who are required to be available during irregular work hours, to perform extended work days or to be on call during emergencies and it is to the University's benefit to ensure the employees' availability. Lodging is provided to those employees who are required to occupy living quarters on campus as a condition of employment, such as Hall Directors in Residential Life. Employees who are eligible for non-taxable meals will generally have this provision in their job description. Meals and lodging provided to employees that do not qualify as a substantial business reason will be *included* in the employee's taxable income.
7. **Awards** - Awards and prizes provided to employees for outstanding achievement and other similar recognition purposes are generally *included* in the employee's income. Length-of-service awards are excludable from income if they are tangible personal property (such as a watch), presented in a meaningful presentation and are not awarded for less than five year increments.
8. **Housing and Car Allowances** - Certain LSU System employees receive housing and/or car allowances as additional cash compensation. All allowances must be approved by the Board of Supervisors and are included in the employee's taxable income.
9. **Uniforms and Uniform Allowance** - Uniforms are provided to employees who are required to wear a uniform as a condition of employment, such as employees of Campus Mail and Facility Services. Uniform allowances are provided to certain officers with the LSU Police Department. Partial allowances are provided for industrial footwear for those employees whose job requires such footwear.

Vice Chancellor for
Finance and Administrative Services