



Fringe Benefits

Course #34101A

Taxes

2 Credit Hours

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FRINGE BENEFITS

This course provides an overview of taxable and nontaxable fringe benefits, including the types of benefits offered through cafeteria plans. It covers applicable exclusions, valuation methods, and the requirements for proper withholding and reporting of taxable fringe benefits, helping ensure compliance with IRS guidelines.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

Fringe Benefit Overview
Fringe Benefit Exclusion Rules
Fringe Benefit Valuation Rules
Rules for Withholding, Depositing, and Reporting

Study the course materials

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Identify various cafeteria plan benefits.
- Identify exclusions that apply to some fringe benefits.
- Recall how to value fringe benefits.
- Recall various requirements for withholding and reporting taxable fringe benefits.

NOTICE

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EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2 CPE hours**.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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CHAPTER 1: FRINGE BENEFIT OVERVIEW

Chapter Objective

After completing this chapter, you should be able to:

- Identify various cafeteria plan benefits.

A fringe benefit is a form of pay for the performance of services. For example, you provide an employee with a fringe benefit when you allow the employee to use a business vehicle to commute to and from work.

Performance of services. A person who performs services for you does not have to be your employee. A person may perform services for you as an independent contractor, partner, or director. Also, for fringe benefit purposes, treat a person who agrees not to perform services (such as under a covenant not to compete) as performing services.

Provider of benefit. You are the provider of a fringe benefit if it is provided for services performed for you. You are considered the provider of a fringe benefit even if a third party, such as your client or customer, provides the benefit to your employee for services the employee performs for you. For example, if, in exchange for goods or services, your customer provides daycare services as a fringe benefit to your employees for services they provide for you as their employer, then you are the provider of this fringe benefit even though the customer is actually providing the daycare.

Recipient of benefit. The person who performs services for you is considered the recipient of a fringe benefit provided for those services. That person may be considered the recipient even if the benefit is provided to someone who did not perform services for you. For example, your employee may be the recipient of a fringe benefit you provide to a member of the employee's family.

ARE FRINGE BENEFITS TAXABLE?

Any fringe benefit you provide is taxable and must be included in the recipient's pay unless the law specifically excludes it. Chapter 2 discusses the exclusions that apply to certain fringe benefits. Any benefit not excluded under the rules discussed in chapter 2 is taxable.

Including taxable benefits in pay. You must include in a recipient's pay the amount by which the value of a fringe benefit is more than the sum of the following amounts.

- Any amount the law excludes from pay.
- Any amount the recipient paid for the benefit.

The rules used to determine the value of a fringe benefit are discussed in chapter 3.

If the recipient of a taxable fringe benefit is your employee, the benefit is subject to employment taxes and must be reported on Form W-2, *Wage and Tax Statement*. However, you can use special rules to withhold, deposit, and report the employment taxes. These rules are discussed in chapter 4.

If the recipient of a taxable fringe benefit is not your employee, the benefit is not subject to employment taxes. However, you may have to report the benefit on one of the following information returns.

If the recipient receives the benefit as:	Use:
An independent contractor	Form 1099-NEC, <i>Nonemployee Compensation</i>
A partner	Schedule K-1 (Form 1065), <i>Partner's Share of Income, Deductions, Credits, etc.</i>

For more information, see the instructions for the forms listed above.

CAFETERIA PLANS

A cafeteria plan, including a flexible spending arrangement, provides participants an opportunity to receive qualified benefits on a pre-tax basis. It is a written plan that allows your employees to choose between receiving cash or taxable benefits instead of certain qualified benefits for which the law provides an exclusion from wages. If an employee chooses to receive a qualified benefit under the plan, the fact that the employee could have received cash or a taxable benefit instead will not make the qualified benefit taxable.

Generally, a cafeteria plan does not include any plan that offers a benefit that defers pay. However, a cafeteria plan can include a qualified 401(k) plan as a benefit. Also, certain life insurance plans maintained by educational institutions can be offered as a benefit even though they defer pay.

Qualified benefits. A cafeteria plan can include the following benefits discussed in chapter 2.

- Accident and health benefits (but not Archer medical savings accounts (Archer MSAs) or long-term care insurance).
- Adoption assistance.
- Dependent care assistance.
- Group-term life insurance coverage (including costs that cannot be excluded from wages).
- Health savings accounts (HSAs). Distributions from an HSA may be used to pay eligible long-term care insurance premiums or qualified long-term care services.

Benefits not allowed. A cafeteria plan cannot include the following benefits discussed in chapter 2.

- Archer MSAs. See *Accident and Health Benefits* in chapter 2.

- Athletic facilities.
- *De minimis* (minimal) benefits.
- Educational assistance.
- Employee discounts.
- Employer-provided cell phones.
- Lodging on your business premises.
- Meals.
- No-additional-cost services.
- Retirement planning services.
- Transportation (commuting) benefits.
- Tuition reduction.
- Working condition benefits.

It also cannot include scholarships or fellowships.

Contribution limit on a health flexible spending arrangement (FSA). For plan years beginning in 2025, a cafeteria plan may not allow an employee to request salary reduction contributions for a health FSA in excess of \$3,300.

A cafeteria plan that does not limit health FSA contributions to the dollar limit is not a cafeteria plan and all benefits offered under the plan are includable in the employee's gross income.

“Use-or-lose” rule for health FSAs. Instead of a grace period, you may, at your option, amend your cafeteria plan to allow an employee's unused contributions to carryover to the immediately following plan year.

Employee. For these plans, treat the following individuals as employees.

- A current common-law employee.
- A full-time life insurance agent who is a current statutory employee.
- A leased employee who has provided services to you on a substantially full-time basis for at least a year if the services are performed under your primary direction or control.

Exception for S corporation shareholders. Do not treat a 2% shareholder of an S corporation as an employee of the corporation for this purpose. A 2% shareholder for this purpose is someone who directly or indirectly owns (at any time during the year) more than 2% of the corporation's stock or stock with more than 2% of the voting power. Treat a 2% shareholder as you would a partner in a partnership for fringe benefit purposes, but do not treat the benefit as a reduction in distributions to the 2% shareholder.