



TYPES OF COMPENSATION

With the end of the year approaching, you will soon be accumulating and summarizing information necessary to prepare the 2009 Forms W-2, reporting wages to your employees. We want to summarize and remind you of the types of remuneration paid for services which must be included as compensation on the Form W-2. In addition to the cash payments you make as compensation to your employees, the following forms of remuneration must also be included as compensation:

- ✓ Personal use by an employee of a company owned or leased vehicle. To see our separate memorandum describing this benefit and the steps necessary to compute the compensation, please [click here](#).
- ✓ Personal use by an employee of a company owned cell phone unless employees keep and regularly submit detailed records of both incoming and outgoing calls, plus all related usage charges. For reimbursement to employee for personal phone expenses, you must have statements on the amount of the expense, the time and place of the use.
- ✓ The value of group term life insurance providing benefits in excess of \$50,000. This value is computed using IRS tables, based on the age of the employee and the amount of insurance in excess of \$50,000.
- ✓ The beneficial cost of split dollar life insurance paid by the employer. Value of this item is contingent on the amount of insurance and whether the employee pays their ratable share of the split premium.
- ✓ The premium cost of any non-group life insurance paid by the employer in which the employee names the beneficiary. If the employer is the beneficiary of the policy, this is not a taxable benefit to the employee.
- ✓ Advances paid to commissioned sales persons unless there is a written promise by the employee to repay any unearned commission.
- ✓ Imputed interest on loans to non-shareholder employees. This applies only if the loan is in excess of \$10,000 and the interest is below the market rate of interest.
- ✓ Personal expenses of the employee paid by the employer are subject to repayment by the employee. If the personal expenses are not reimbursed by the employee, the amounts should be treated as compensation to the employee. This includes

- club dues where all or a portion of the club activity is not related to the business of the employer.
- ✓ Most cash and non-cash awards or prizes paid to, or on behalf of, an employee.
 - ✓ Employee discounts to the extent the discount is below the gross profit of the item. In the case of highly compensated employees, the discount is fully taxable if the employee discounts are offered on a discriminatory basis.
 - ✓ Payments for an employee's medical care under a medical reimbursement plan, if the plan is discriminatory.
 - ✓ Certain payments made by an employer to an employee for moving expenses. Generally, withholding is not required on the payments, but a separate report detailing the moving expenses must be provided to the employee.
 - ✓ Transfer of property to employees, or other non-cash payments. This includes gifts to an employee in excess of \$25 unless made on account of recognition for an employee achievement, such as length of service or safety achievement. The limitation for these special gifts is \$400.
 - ✓ Payment to employee for business related expenses they incur if the employee is not required to substantiate the expense. For example, a \$500 per month automobile allowance is ordinary wages if the employee does not substantiate to the employer the actual business related expense of operating the automobile.
 - ✓ Fringe benefits, including health insurance, group life insurance, and disability insurance received by more than 2% shareholders of S corporation. **To see our separate memorandum describing the Summary of Requirements to Deduct Self Employed Health Insurance for Shareholders of S Corporations, please [click here](#).**
 - ✓ Other types of remuneration or benefits have special payroll tax implications:
 - ✓ Employee salary deferrals under a Section 401(k) retirement plan are not wages for income tax purposes. However, such deferrals are subject to FICA, FUTA, and SUTA, and require special reporting on Form W-2.
 - ✓ Employee salary deferrals under a Section 125 cafeteria plan are not subject to any payroll taxes, and need special reporting on Form W-2. Amounts paid for dependency care are reported in box 10.
 - ✓ Other fringe benefits may require special reporting on Form W-2.
 - ✓ Amounts earned and vested by an employee under a non-qualified deferred compensation or retirement plan may be subject to FICA, FUTA, and SUTA,

even though not payable until a later year when it would be subject to income taxation.

This list is not all inclusive and other types of remuneration may have to be reported as wages on the Form W-2. We are available to assist you in the determination of whether an item is taxable compensation. Please let us know if you have any questions regarding this issue or want to discuss this issue in more detail.

As a side note: there is a website available to assist with the definition and detailed information on overtime pay requirements. You can go to the OT Calculator at www.dol.gov/elaws/otcalculator.htm.