

## **2010 Adjustments to Taxable Wages**

### **Group Term Life Insurance in Excess of \$50,000 for Current Employees**

IRS regulations require the inclusion in taxable wages of the value of district paid group term life insurance in excess of \$50,000 less any employee after-tax payroll deduction. This value is treated as taxable income, subject to FICA and Medicare taxes for applicable employees. The value is calculated based on group term life insurance rates established by the IRS, see Attachment 1. Report the required data for each covered employee on the 2010 Group Term Life Insurance In Excess of \$50,000 spreadsheets, Worksheet 1, *Life > \$50,000 – current*

Employee contributions on the value of over \$50,000 of a Group Term Life Policy that is included as part of a Section 125 Cafeteria Plan will be taxable income to the employee.

### **Group Term Life Insurance in Excess of \$50,000 for Former Employees**

For former employees (including retirees) the former employee must pay the employee portion of FICA and Medicare taxes with their income tax return. The employer is responsible for the employer portion of the tax. The employee's uncollected amounts, however, must be reported as information items on the W2. Use Worksheet 1A for all former employees/retirees.

### **Life Insurance Other Than Group Term Life Insurance**

Premiums that employers pay on individual life insurance policies covering employees are subject to income tax and applicable FICA and Medicare taxes if employees can designate the beneficiaries and the employer is not directly or indirectly a beneficiary. Report the required data for each covered employee on the 2010 Other Taxable/Reportable Payments/Benefits, Worksheet 8, *Other*. Indicate Life Insurance Other Than Group Term Life in the heading.

### **Third-Party Sick Pay – District Paid**

IRS regulations require the inclusion in taxable wages of sick pay paid by a third party to your employee(s). Districts participating in this program will need to provide our office with a report of amounts paid to covered employees and amounts withheld for income tax, FICA and Medicare from applicable employees. Report this data on the 2010 Third-Party Sick Pay spreadsheet, Worksheet 2, *3rd-Party Sick Pay – Dist. Pd*. If your district uses a third party administrator for this program, please coordinate the reporting of this information so that the district can obtain, certify and submit the data to our office by January 07, 2011.

### **Third Party Sick Pay – Employee Paid**

Sick pay paid to your employees from a third party is not taxable or subject to FICA and Medicare taxes if the employee contributed to the sick pay plan. These amounts, however, must be reported as information items on the W2. Report this data on 2010 Non-Taxable Third Party Sick Pay, Worksheet 3, *3<sup>rd</sup> Party Sick - Non-Tax*.

# 2010 Adjustments to Taxable Wages

## Employee Use of District Vehicles

IRS regulations require the inclusion in taxable wages and reporting on the W-2 of the value of an employee's private use of a district provided vehicle and the payment of FICA and Medicare taxes on said value for applicable employees. Included are district-owned vehicles that are assigned to an employee when the employee is allowed or required to use this vehicle for commuting from home to work and back on a regular basis. The value can be calculated using one of four methods. Report the required data and the value determined from one of the following methods on the 2010 Employee Use of District Vehicles spreadsheet, Worksheet 4, *Use of Vehicles*:

1. **Fair Market Value Method** – The employer determines how much it would actually cost an individual to lease a comparable vehicle on comparable terms. This value is multiplied by the ratio of personal mileage to the total mileage to determine the personal use value to be included in taxable wages.

This method can be used for all vehicles, regardless of their value. This method can also be used for any year even if a different valuation method was used in a previous year.

Computation:

Step 1: Compute personal use based on miles driven

Example: 2,500 personal miles/10,000 total miles = 25% Personal Use

Step 2: Determine the cost of what the employee would pay to lease the Vehicle (FMV)

Step 3: Multiple FMV by % of personal use

Example: Cost to lease car (FMV) for 1 year plus value of fuel = \$4,500

Step 4: Multiply \$4,500 by 20% personal use = \$900 Taxable Wages

2. **Annual Lease Value** – This is an alternative to the fair market value method that provides a shortcut to determining the actual cost to lease a particular vehicle. See Attachment 2, 2010 Annual Lease Value Table, for approved lease values based on the fair market value of a vehicle. To determine the fair market value, use the following safe harbors:

- If the employer owns the vehicle, use the cost of buying the vehicle including sales tax, title and other expenses attributable to the sale.
- If the vehicle is leased by the employer, the fair market value is either the manufacturer's suggested retail price (including sales tax, title and other expenses) less 8%; the value determined by nationally recognized pricing sources; or the manufacturer's invoice price (including options) plus 4%.

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## Annual Lease Value continued

The values in the Annual Lease Value Table include the fair market value of maintenance and insurance for the vehicle. The values do not include the fair market value of fuel provided by the employer. If fuel is provided by employer, include add its fair market value. As an alternative, use 5.5 cents per mile to calculate this amount.

This method can be used for any vehicle, however once this method is used to value a vehicle, you cannot switch to the cents-per-mile method to value the same vehicle. You can only switch to the fair market value or the commuting use method.

Example:

Employee drove a district vehicle valued at \$13,000 for 8,500 miles in one year. 1,500 miles were for personal use.

Computation:

Step 1:  $1,500 \text{ miles} / 8,500 \text{ miles} = 18\%$

Step 2: \$3,850 is the annual lease amount from the table (Attachment 2)

Step 3:  $\$3,850 \times 18\% = \$693.00$  Taxable Income

- Cents-Per-Mile Method** – Multiply the number of personal miles driven by the employee (based on logs kept by the employee) by the standard mileage rate published by the IRS. The 2009 rate is 55 cents per mile. The rate includes the cost of gas. If the employee provides their own gas for personal use, the rate is reduced by 5.5 cents per mile. See Attachment 3 for the Cents-Per-Mile Method worksheet.

The following conditions must be met to use this method:

- The employer expects the employee to regularly use the vehicle to conduct employer's business, or must be driving at least 10,000 miles per year (including personal use) by employees.
- The fair market value of the vehicle when first put into use cannot exceed the IRS luxury car value.
  - Passenger automobile must have a FMV less than \$15,000
  - Trucks or Vans must have a FMV less that \$15,900

Once you elect the cents-per-mile method to value a particular vehicle, you cannot switch to the table value method to value the same vehicle. You can only switch to the fair market value method or the commuting use method.

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4. **Commuting Method** – This method is used when an employer restricts personal use of a district vehicle to commuting to and from work. You can value such use at \$1.50 per one-way commute/\$3.00 per round trip. If more than one employee commutes in the same vehicle, the \$1.50/\$3.00 is applied to each. See Attachment 3 for the Commuting Valuation Method worksheet.

This method can only be used for ordinary employees. It cannot be used for “control employees”; directors and employees whose compensation is \$195,000 or more in 2009.

This method can only be used if the employer reasonable expects that the vehicle will be used for business purposes throughout the year or the vehicle is driven by an employee at least 10,000 miles (business and/or personal) during the year.

You can switch to this method any time that personal vehicle use is restricted to commuting, even if you use one of the other methods in another year.

### **Health and Welfare Benefits Provided to Domestic Partners**

The value of health and welfare benefits provided to domestic partners of employees (who do not otherwise qualify as dependents) are:

- Subject to federal income tax
- Subject to federal income tax withholding
- Subject to FICA
- Subject to Medicare
- Subject to state income tax if all California requirements are not met
- Not subject to state income tax if all California requirements are met

The value of the benefit that is taxable to the employee is the fair market value of the group medical coverage provided to the domestic partner, less the amount the employee paid for such coverage. Generally this would be the amount that domestic partner would have paid for such coverage if the domestic partner were an employee of the district purchasing the coverage on an individual basis (the district’s group plan single party rate for the applicable medical plan).

Please note that this value may be higher than the incremental amount that the insurance provider is actually charging to the district for adding the domestic partner to the employee’s coverage. Report this data on the 2010 Health and Welfare Benefits Provided to Domestic Partners spreadsheet, Worksheet 5, *Domestic Partners*.

# 2010 Adjustments to Taxable Wages

## **Other Taxable/Reportable Payments/Benefits**

Districts may have processed non-payroll payments to employees that are taxable and subject to FICA and Medicare, as applicable, including:

- Mileage/business allowances paid under a non-accountable plan
- Mileage reimbursement in excess of the standard IRS rate
- Non-qualified moving/relocation expense
- Settlement agreements
- Cell Phones/Pagers
- Health Savings Plan
- Employer Provided Benefits

## **Payments through Accounts Payable**

Payments processed through Accounts Payable that were flagged for 1099 reporting will be automatically added to taxable wages for reporting on the W2. However, this process does not consider FICA or Medicare charges or reporting. Districts will need to report these amounts on the 2010 Other Taxable/Reportable Payments/Benefits spreadsheet, Worksheet 8, *Other*. Indicate the type of payment being reported in the heading. Do not report payments already flagged for 1099 reporting in the Value to Be Included in Taxable Wages column as the amount will be duplicated in taxable wages.

Any amounts paid by the district through the revolving cash account will also need to be reported on this spreadsheet. These amounts will need to be reported in the Value to be Included in Taxable Wages Column and wages, FICA and Medicare columns as applicable. Indicate "Payments Made Through Revolving Cash" in the heading.

## **Workers' Compensation**

IRS regulations require the exclusion from taxable wages payments made to employees by a third party (i.e. claims adjuster) for workers' compensation benefits. If the third party makes the payment to the districts, these amounts are also non-taxable to the employee. These amounts are also excluded from FICA and Medicare earnings. Adjustments can only be made up to the amount of 2010 taxable earnings for each employee. Report this data on the 2010 Workers' Compensation Payments spreadsheet, Worksheet 6, *Workers' Comp*. We will no longer accept information directly from third party administrators. If your district uses a third party administrator for this program, please coordinate the reporting of this information so that the district can obtain, certify and submit the data to our office by January 07, 2011.

### 2010 Group Term Life Insurance Rates

Group Term Life Insurance in excess of \$50,000.

Uniform premiums for \$1,000 of group term life insurance.

**Table 1 - Rates Effective January 1, 2002**

<u>Age of Employee*</u>	<u>Monthly Rate</u>	<u>Annual Rate</u>
Under 25	.05	.60
25 to 29	.06	.72
30 to 34	.08	.96
35 to 39	.09	1.08
40 to 44	.10	1.20
45 to 49	.15	1.80
50 to 54	.23	2.76
55 to 59	.43	5.16
60 to 64	.66	7.92
65 to 69	1.27	15.24
70 /Above	2.06	24.72

**\*The age the employee attained as of the last day of the calendar year.**

## 2010 ANNUAL LEASE VALUE TABLE

<b>AUTOMOBILE FAIR MARKET VALUE</b>	<b>ANNUAL LEASE VALUE</b>	<b>AUTOMOBILE FAIR MARKET VALUE</b>	<b>ANNUAL LEASE VALUE</b>
\$ 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		

For vehicles having a fair market value in excess of \$59,999, the Annual Lease Value is equal to:  
 (.25 x automobile fair market value) + \$500.

**CENTS-PER-MILE METHOD**

Enter personal miles	x \$0.50	= \$
_____		_____
Enter miles per which employee paid for fuel for person use	x \$0.055	= \$( _____ )
_____		
Total employee taxable income		\$ _____

**COMMUTING VALUATION METHOD**

This part can only be used for vehicles covered by a written policy that allows commuting to and from work but no other personal use.

Number of commuting round trips made		_____
Value per round trip	x	_____ \$ 3.00
Total employee taxable income		\$ _____