

HOGAN • HANSEN

A Professional Corporation

Certified Public Accountants and Consultants

December 2021

To Our Clients:

RE: - 2021 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 2021 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 sponsored 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 2021 to arrive at the W-2 compensation amount.* An example of a computation is scheduled below:

Insurance Coverage	\$	80,000
Less:		<u>(50,000)</u>
Coverage over \$50,000		30,000
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>

* **Note:** This method may not be used for 2% S-Corp shareholders who must report the entire amount of premiums as income.

**GROUP TERM INSURANCE COVERAGE RATES (Reg. 1.79-3(d)(2))
2021**

<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 more than a 2% interest in the corporation are taxed on the following fringe benefits they receive from the corporation: health insurance, 100% of group term life insurance premiums, disability insurance, meals or lodging furnished for the employer's convenience, and tax-free benefits generally provided under a cafeteria plan. A greater than 2% shareholder (including spouse and children) may not participate in a cafeteria plan.

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 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.

Please contact Hogan - Hansen for any questions on reporting health insurance premiums and other fringe benefits for 2% S-Corp employees.

NONACCOUNTABLE EXPENSE ALLOWANCES

If the employer does not require employees to provide a detailed written record to substantiate business expenses or advances, a nonaccountable plan exists. A nonaccountable expense allowance includes a payment or allowance to an employee or benefit of an employee for travel, auto mileage, meals, plus payments to vendors for vehicle fuel, repairs and maintenance, and vehicle lease payments 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

After 2017 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. 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) are still deductible. 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 two methods in which to handle nondeductible club dues that have been paid directly to the club on behalf of the employee:

Method 1: The employer 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 employee may choose to reimburse the employer for the entire amount of nondeductible club dues paid on his behalf rather than having additional W-2 income.

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.

MOVING EXPENSE REIMBURSEMENTS NO LONGER EXCLUDED FROM COMPENSATION

For tax years beginning after December 31, 2017, the moving expense deduction is suspended until January 1, 2026. After December 31, 2017, there is no exclusion for amounts paid for reimbursement of moving expense and such payments are compensation to the employee.

PERSONAL USE OF COMPANY OWNED AUTOMOBILES

Attached is a form for employees to complete which summarizes the personal, commuting, and business miles driven during 2021, 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.

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 2021 until 2022. 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 2021 annual W-2 for the employee.

Please note that if the cents-per-mile method is being used, the rate for 2021 is 56¢ per mile. The cents-per-mile method may be used only if the employer provided vehicles passes one of the two threshold tests for usage:

- a) The employer reasonably expects the vehicle to be "regularly used" in its business, that is at least 50% of the total annual mileage is for the employer's business.
- b) The vehicle is actually driven primarily by employees at least 10,000 miles during the year.

The cents-per-mile method is available for use in 2021 on vehicles with a maximum fair market value of \$51,100, per IRS Notice 2021-02. The cents-per-mile method may be applied on a vehicle by vehicle basis and the employer must adopt the cents-per-mile rule on the first day on which the vehicle is used by an employee for personal use.

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.

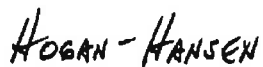
W-2 FILING DATE

The due date for filing Forms W-2 with the Social Security Administration (SSA) and Forms 1099-MISC containing non-employee compensation with the IRS is January 31, 2022.

The employer provided fringe benefits explained in this communication are not all inclusive and there are many other fringe benefits that may be considered income to an employee and subject to employer reporting.

Please contact your client relationship manager if you have any questions related to the contents of this letter or other questions related to employee fringe benefits and 2021 Form W-2 preparation.

Sincerely,



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, 2021. X drives the car 11,000 miles during 2021, 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