

Chapter 10: Benefits – Fringe Benefits

10.1 Fringe Benefits Overview

A fringe benefit is a form of pay for the performance of services. For example, an employee is provided with a fringe benefit when allowed to use a business vehicle to commute to and from work. This section covers the following fringe benefits and subsidies:

- Child care
- Fitness/wellness
- Parking
- Student loan repayment
- Transportation

A non-cash fringe benefit is taxable and must be included in the recipient's pay unless the law specifically excludes it. Internal Revenue Service Publication 15-B, Section 2, discusses the exclusions that apply to certain fringe benefits. Any benefit not excluded under the rules discussed in section 2 is taxable. 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

Taxable Benefits

These include use of a government vehicle or leased vehicles for commuting, use of a limo service and parking, or child care subsidy exceeding \$5,000.

Non-Taxable Benefits

These include some transportation programs. Child Care Subsidy up to \$5,000 is only reported for W-2s Wage and Earnings Statements.

10.2 Child Care Subsidy (Taxable and Non-Taxable)

Public Law 107-67 was enacted to help make child care more affordable for lower-income Federal employees. The law permits agencies in the executive branches of government to assist lower income employees with their child care costs. Federal personnel policies include leave policies and flexible work schedules to help employees with their child care responsibilities. Employees might choose one option at one point in their career and another option at a different point. The policies are designed to give Federal employees the flexibilities they need to manage personal and professional responsibilities.

To be eligible for a child care subsidy, an employee must meet the following criteria, as outlined in the plan:

- Be a permanent employee;
- Have at least one child who is:
 - Age six or younger, or under age 18 and physically or mentally disabled as determined by a physician or by a licensed or certified psychologist; and
 - A dependent of the employee as described under Code Section 152(a); and
 - A member of the employee's household.
- Have a Family Adjusted Gross Income of \$60,000 or less annually; or
- Use a child care provider who is licensed or regulated in the state or location in which the provider operates and who is not a child or dependent of the employee.

Client Responsibilities:**➤ Employee**

Completes the subsidy application.

Certifies on the invoice approval form that their child, in fact, received the qualifying services for that billing period.

➤ Plan Administrator

Sends the invoice approval form at the end of each month to the Qualified Child Care Provider named by the employee on the subsidy application.

The Qualified Child Care Provider certifies on the invoice approval form that the qualifying services for the billing period were actually performed on behalf of the employee's child.

The employee certifies on the invoice approval form that the employee's child received the qualifying services for that billing period.

When the invoice approval form is returned to the Plan Administrator, it is reviewed and the subsidy is paid directly to the Qualified Child Care Provider.

Plan Administrator sends documents to POB for updating wages.

IBC Responsibilities:**➤ POD - Payroll Operations Branch**

Receives certification from the Plan Administrator Federal Employee's Education Assistance Fund (FEEA) certifying payments were made for the employee to the Qualified Child Care Provider.

Processes a one-time adjustment (OTA) to adjust wages for the employee who participated in the Child Care Subsidy Program. These OTAs are processed in the last pay period of the year, so the amounts are reflected on the employee's current W-2.

There are two pay codes used for Child Care Subsidies: pay code CCN and pay code CCT. These pay codes are used to record child care subsidies paid throughout the year outside of FPPS. Although FPPS does not disburse the subsidy amounts, IRS requires reporting on Form W-2, Wage and Earnings Statement.

Pay Code CCT

This pay code is used when the employee has received the benefit of child care paid on their behalf and is taxed for the benefit for amounts that exceed \$5,000 combined with other non-taxable dependent care programs (i.e., Flexible Spending Accounts). Social Security, Medicare, Federal, state, and most local taxes are deducted.

Pay Code CCN

This pay code is to be used for nontaxable child care benefits up to \$5,000 when combined with other non-taxable dependent care programs (i.e., Flexible Spending Accounts).

Pay Codes CCT and CCN

Both pay codes are included on the labor cost file, if applicable, for information and internal reporting needs. The government additives associated with pay code CCT is

disbursed by POD and should be treated as costs. This is similar to pay codes EPT (parking) and ETT (transportation - taxable).

10.3 Fitness/ Wellness Subsidy (Taxable) [DOI]

When an employer pays for or reimburses an employee for a fitness program provided to the employee at a privately-owned, off-site athletic club, the amount of the payment or reimbursement must be reported as taxable income and subsequently reported on the employee's W-2. This includes fees reimbursed to an employee for use of a hotel or resort facility (reference 26 CFR 1.132-1; Paragraph 620 of CCH Payroll Management Guide; IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits; and IRS Publication 525, Taxable and Nontaxable Income).

However, if the athletic facility is located on the employer's premises (owned or leased), operated by the employer, and if substantial use of the facility is by current or retired employees, their spouses, or their dependent children, then the fees reimbursed to the employee or paid on the employee's behalf are excluded from gross income. As such, the payment is not subject to income tax, Social Security, or Medicare withholdings.

If all these conditions are not met, the payment is taxable. Pay Code EFB is used for these transactions so that the W-2 shows the amount as a taxable fringe benefit.

Client Responsibilities:

➤ **Client Accounting Office**

Prepares the Entitlement interface file (IFIL0284) or form A-18 Report of Taxable Fringe Benefits (see Appendix) for pay code EFB (Fringe Benefit) and submits to IBC.

IBC Responsibilities:

➤ **POD – Payroll Operations Branch**

Enters the A-18 Report of Taxable Fringe Benefits form into FPPS to make a payment to the employee and to update the employee's year-to-date record (Form W-2) for tax reporting purposes. If the payment was issued by the CAO, the payment amount is listed as pay code 66A.

➤ **PPSD – Systems Development/Support (FPPS)**

Receives the Entitlement interface file (IFIL 0284) and loads it into FPPS to make a payment to the employee and to update the employee's year-to-date record (Form W-2) for tax reporting purposes. If the payment was issued by the CAO, the payment amount is listed as pay code 66A.

NOTE: FPPS computes the correct amount of Federal, Social Security, state, and local taxes on the taxable income and deducts those taxes from the employee's current pay.

10.4 Parking (Taxable)

Currently, up to \$270 per month of the fair market value of parking that is subsidized or provided to employees is exempt from taxable income. Any amount in excess of \$270 per month is taxable income and must be reported for inclusion on the employee's W-2. The fair market value that exceeds \$270 per month should be reported to POB. Pay Code EPT is used for these transactions so that the W-2 shows the amount as a taxable fringe benefit.

Refer to the current IRS Publication 15-B at www.irs.gov for current rates.

Client Responsibilities:**➤ Client Accounting Office**

Pays subsidy or provides parking to employee.

Prepares the Entitlement interface file (IFIL0284) or form A-18 Report of Taxable Fringe Benefits (see Appendix) for pay code EPT (Parking – Taxable) and submits to IBC.

IBC Responsibilities:**➤ POD – Payroll Operations Branch**

Enters the A-18 Report of Taxable Fringe Benefits form into FPPS using pay code EPT to update the employee's year-to-date record (Form W-2) for tax reporting purposes. No payment is issued. Only taxes are adjusted.

➤ PPSD – Systems Development/Support (FPPS)

Receives the Entitlement interface file (IFIL0284) and loads it into FPPS to update the employee's year-to-date record (Form W-2) for tax reporting purposes. No payment is issued. Only taxes are adjusted.

NOTE: FPPS computes the correct amount of Federal, Social Security, state, and local taxes on the taxable income and deducts those taxes from the employee's current pay.

10.5 Student Loan Repayment Program (Taxable)

The Student Loan Repayment Program, established in 1990 (5 U.S.C. 5379), authorizes agencies to repay federally insured student loans as a way to help recruit and retain highly qualified employees. The amount paid by the agency is subject to a maximum limit of \$10,000 per employee per calendar year and a lifetime total of \$60,000 per employee. However, OPM regulations do not prohibit an employee from receiving student loan repayment benefits from multiple agencies totaling an amount greater than \$60,000 (example: one agency pays \$60,000 and another agency pays \$20,000 – the employee is allowed to receive the total amount of \$80,000). A Student Loan Repayment Program Fact Sheet is available online at www.opm.gov/oca/PAY/StudentLoan.

Payments under this program are authorized by the employing agency in accordance with agency policy, and are paid by FPPS directly to the lender. The gross authorized amount is taxable income to the employee. Appropriate tax withholdings are made from the gross authorized amount and the net is paid to the lender.

For tax purposes, income is reported the year in which the payment is made and calculated at the Flat Tax Rate.

Effective August 11, 2013 the employee's Leave and Earning Statement shows the gross amount as pay code SLP under the Earnings/Other Pay section, 'Student Loan Re-Pay' and the net payment as pay code SNP under the deductions section 'Student Loan Net'. The employee's Form W-2 includes the gross student loan repayment amount in Federal, state, local, OASDI, and Medicare wage fields, as applicable, and includes the withheld taxes in the appropriate tax fields.

Client Responsibilities:**➤ Servicing Personnel Office or Agency Designee**

Effective August 11, 2013 the employing agency inputs all appropriate information to create and authorize PPSD to make Student Loan Repayments.

Initiates a Service Agreement between the agency and the employee in accordance with terms, limitations, and conditions of 5 CFR part 537 and the employing agency's policy and procedures.

Processes a Personnel Action (SF-50) using Nature of Action Code 817. Selects the appropriate vendor. If the vendor is not listed, a ticket needs to be opened with the CSC to have PPSD update the Student Loan Vendor Information List Table. Include vendor name, routing number, account number and address on the ticket.

Prior to authorizing loan repayments, the agency must verify with the holder of the loan that the employee has an outstanding student loan that qualifies for repayment under this program.

Notifies CAO if an employee does not fulfill their Student Loan Repayment Program agreement. The employee may owe the full amount back to the agency. Include the agreement date, copies of the original loan payment document, and the years needing to be repaid.

Cancellations and corrections to increase or decrease student loan payments must be processed through FPPS.

If the employee has not fulfilled their agreement, please contact the Payroll Operations Branch if a bill is needed.

➤ **Client Accounting Office**

Receives notification from client regarding employee did not fulfill their Student Loan Repayment Program agreement.

Issues a Bill of Collection for the required amount.

Notifies POB if debt recoverables need to be processed and when the Bill of Collection has been paid so an amended W2 may be processed.

IBC Responsibilities:

➤ **POD - Payroll Operations Branch**

Receives notification from CAO that debt recoverables need to be processed.

Processes collection of recoverables and issues a W2C (if applicable).

Processes a W2C when debt has been paid.

Processes the student loan payment by Paid Daily if the student loan is not processed due to system problems.

10.6 The Transportation Fringe Benefit Program

Executive Order 13150 dated April 21, 2001 established the Mass Transportation and Vanpool Transportation Fringe Benefit Program. Under this program, Federal employees can receive subsidy benefits in the form of transit passes or receive a transportation commuting benefit that allows the employee the ability to claim commuting costs as non-taxable income.

10.6.1 Transportation (Commuting) Benefits (Non-Taxable)

The Transportation Fringe Benefit Program is authorized by Public Law 103-172 (Federal Employees Clean Air Incentives Act), as amended by Public Law 105-178 (Transportation Equity Act for the 21st Century).

This specific transportation fringe benefit *is not the transit subsidy program* where fare cards are provided by the government to employees, but rather the employee makes all necessary arrangements for their transportation. The agency is not involved in any manner in the purchase or distribution of fare cards. There is no exchange of funds or transit passes between the agency and the employee. The employee continues to acquire their transit pass or pays for the commuter highway vehicle transportation in the same manner as in the past. The employee reaps the benefits through the biweekly pretax payroll deduction.

The objective of this program is to further the policy of promoting the use of public transportation by all employees. Occasional or sporadic use of public transportation does not qualify an employee for enrollment in this program. Employees who use public transportation (for example: subway, bus, or rail) for commuting to and from work, or who commute in a commuter highway vehicle, are eligible to receive tax benefits for qualifying transportation expenditures by participating in this program. The tax benefit increases take home pay each pay period, thus offsetting a portion of the employee's expenditures on public transportation.

Employees who participate in this program realize a reduction in their taxable gross income by the amount of qualifying public transportation expenses, up to a maximum amount per month. The pretax deductions operate in a manner comparable to that of the current Thrift Savings Plan, whereby gross earnings (subject to taxes) are reduced before applying tax withholding.

An employee should contact their SPO for the eligibility requirements. Like all programs that affect the taxable income of an employee, participants in this program are responsible for maintaining records documenting actual transportation expenses incurred in commuting to and from work.

Client Responsibilities:

➤ **Employee**

Annually submits an Enrollment Form, Application for Participation in Transportation Fringe Benefit Program to their supervisor or manager to receive transportation fringe benefits. Enrollment forms must be completed by November 30 of each year. An employee who initially enrolled in this program after September 30 of any given year is not required to re-enroll until November 30 of the following year.

Annually submits an Actual and Claimed Transportation Expenses Form (DI-2106 for DOI employees), along with the Enrollment Form.

Submits an updated Enrollment Form and Expenses Form to reflect changes in the amount of transportation expenses that may legally be claimed, if applicable.

DOI Employees Only – forms are electronically located at https://www.doi.gov/ofas/support_services/transportation_subsidy.

➤ **Servicing Personnel Office**

Provides information on this program to all new hires and to transfers as part of their orientation package. Maintains a supply of Enrollment and Expenses Forms.

Receives the executed Enrollment and Expenses Forms and reviews the forms for completeness. Prepares the Voluntary Deduction interface file (IFIL0282) or enters the information using pay code TFB (Transportation Fringe Benefit) in the voluntary deductions field on the VDIN/VDCG command in FPPS, not to exceed the monthly allowable amounts (see chart on the following page). The voluntary deduction is used to reduce taxable gross wages by the biweekly amount. The monthly amount claimed by the employee must be calculated into a biweekly amount.

NOTE: How to calculate the biweekly amount from the monthly amount:

- Compute the annual amount by taking the monthly amount times 12 months = the annual amount.
- Compute the biweekly amount by taking the annual amount divided by 26 pay periods = biweekly amount.

Forwards copy of the processed form to the employee.

➤ **Program Coordinators**

Conducts periodic verifications to ensure that privileges extended to employees are consistent with the enrollment information provided by employees in this program (for example: employees who claim they are using public transportation five days per week should not also be receiving unrestricted parking privileges in the vicinity of their office).

➤ **Supervisor**

Reviews the employee's Enrollment and Expenses Forms, and verifies that the information provided by the employee is correct to the best of his/her knowledge. Requests the employee provide more details on the nature and type of commuting patterns, and provides any expense documentation to support commuting costs if the information provided by the employee is not enough for the supervisor to attest to its accuracy.

Forwards the executed Enrollment Form (signed by both the employee and the supervisor) and Expenses Form to the SPO for processing.

10.6.2 Transportation (Taxable)

Noncash benefits are included in taxable income. For example, the use of government vehicles or leased vehicles for commuting or the use of limo services would be considered a taxable fringe benefit with certain assessed value at no charge to the employee, except for increased taxable wages.

Client Responsibilities:

➤ **Client Accounting Office**

Prepares the Entitlement interface file (IFIL0284) or form A-18 Report of Taxable Fringe Benefits (see Appendix) for pay code ETT (Transportation – Taxable) and submits to IBC.

IBC Responsibilities:

➤ **POD – Payroll Operations Branch**

Enters the A-18 Report of Taxable Fringe Benefits form into FPPS to update the employee's year-to-date record (Form W-2) for tax reporting purposes.

➤ **PPSD – Systems Development/Support (FPPS)**

Receives the Entitlement interface file (IFIL0284) and loads it into FPPS to update the employee's year-to-date record (Form W-2) for tax reporting purposes.

NOTE: FPPS computes the correct amount of Federal, Social Security, state, and local taxes on the taxable income and deducts those taxes from the employee's current pay.

10.7 Wage and Tax Chart for Fringe Benefits

DESCRIPTION	PAY CODE	PAYS EMPLOYEE	DEDUCTS FROM EMPLOYEE	INCREASES TAXABLE WAGE	DECREASES TAXABLE WAGE	EXAMPLE/OTHER INFORMATION	2021 Limits*
TRANSPORTATION-DEDUCTION (NON-TAXABLE)	TNT	N	Y	N	Y	Discount fare cards provided by govt. Employees pay through payroll deduction and taxable income is reduced.	
TRANSPORTATION FRINGE BENEFIT	TFB	N	N	N	Y	Employee purchases fares for transportation/ metro, non-taxable wages up to limits. No cash exchange between employee and agency. ¹	\$270 monthly
TRANSPORTATION (TAXABLE)	ETT	N	N	Y	N	Limo or parking (Govt. owed vehicle) with certain accessed value at no charge to employee, increases taxable wages.	
EMPLOYEE PARKING (TAXABLE)	EPT	N	N	Y	N	Amounts in excess of \$270.00 per month of "fair market value" is taxable for parking which is subsidized or provided to employees.	excess of \$270
EMPLOYEE FRINGE BENEFIT	EFB	Y	N	Y	N	Employee receives a fringe benefit that becomes taxable; Used to reimburse employees for out of pocket payments i.e. fitness dues, etc., If no reimbursement is due then pc 66A or MBA must be used to offset the net amount of the fringe benefit to prevent payment.	
CHILD CARE SUBSIDY NON-TAXABLE UP TO \$5000	CCN	N	N	N	Y	Reports on the W-2 payments up to \$5,000 (depending on marital status) combined with other non-taxable dependent care programs when the employee has received the benefit of child care paid on their behalf. ²	up to \$5000
CHILD CARE SUBSIDY (TAXABLE) EXCEEDS \$5000	CCT	N	N	Y	N	Taxable when the employee has received the benefit of child care paid on their behalf for amounts that exceed \$5,000.	Excess of \$5000

¹ This pay code amount is included on the W2 in Box 14.

² This pay code amount is included on the W2 in Box 10.