

Guidelines on Taxable Fringe Benefits**General**

The general rule is that all fringe benefits to an employee are taxable, unless a specific IRS Code section provides otherwise.

De Minimis Exception

For fringe benefits that are too small and infrequent to be worth tracking, accounting for, and enforcing, the IRS code allows such items to be paid without being taxed. The University has set this amount at \$100. However, if the benefit is cash, gift certificate, or for regular meals, then the de minimis exception does not apply. Non-taxable example – flowers valued at \$50 sent by the department to an employee recovering from surgery.

Business Meals, Entertainment, and Gifts

Business meals, entertainment, and gifts are not a taxable fringe benefit to the employee if they have a business purpose. The IRS code and regulations are quite specific regarding the documentation necessary to prevent it from being a taxable fringe benefit. In fact, a separate code section 274 was added to spell out the documentation requirements for these expenses. Even though it may be obvious that the expense is business related, the IRS says without documentation of the required elements, then no deduction is allowed. The documentation must include the following elements: amount, date, and place of entertainment (usually on the receipt); type of entertainment if not apparent from the place; business purpose (expected benefit to the University); and the name, title, and other information about the person(s) entertained sufficient to establish the business relationship to the requester. Basketball tickets and the related mandatory Razorback Foundation contributions are included in this category and require documentation to avoid being a taxable fringe benefit to the employee.

Spousal Travel

When a spouse accompanies an employee on a business trip and the University pays the expenses, this may result in a taxable fringe benefit to the employee for the spouse's expenses. In order not to be taxable, the spouse must document a business purpose that goes beyond normal spousal socializing and incidental participation. Non-taxable example – Spouse attends an out of town fundraising function. The spouse documents with a log or other writing that s/he contacted specific potential or past donors at this function and was able to assist with the solicitation of contributions for the University.

One Day Trip Meals

The IRS considers individual meal expenses to be a non-deductible personal expense unless the employee is in business travel status, which normally requires an overnight stay. Another exception is if it is a business entertainment meal involving others and the proper documentation is submitted. The typical example is a one-day trip to Little Rock for a business meeting without an overnight stay, and the University reimburses for the employee's meals. These meals are a taxable fringe benefit to the employee.

Moving Expenses

Moving expenses for household goods and family travel and lodging from the old location to Fayetteville are non-taxable. However, all other expenses including house hunting trips and all meals are taxable. In addition, lodging expenses upon arrival in Fayetteville in excess of the day of arrival are taxable.

Civic Organization Meeting Meals and Dues

Dues and meal expenses for these meetings are taxable unless there is a University business purpose for joining and attending. Typically, the participant has no option to participate in the meetings without taking the associated meal. Therefore, payment for these meals is not taxable if the business purpose for attending the underlying meetings is established. A business purpose is established if participating results in representing and promoting significant University interests. Non-taxable example - the Chancellor is expected to join and attend the Fayetteville Chamber of Commerce meetings to represent the University's interests as a part of the Fayetteville business community. Taxable example - a history assistant professor is a member of the Lions Club and incurs membership dues and meeting meal expenses, which are paid by the University. There is no significant University business purpose.

Charitable Banquets or Events

If the person attending is an upper level employee of the University and is representing the University in an official capacity, then the expenses are non-taxable. If it is an event of the nature that spouses are expected to attend, those expenses are non-taxable as well. Non-taxable example – The Vice Chancellor for Financial Affairs is designated to represent the University at the United Way banquet and is expected to bring his spouse. The banquet expenses for himself and his spouse are not a taxable fringe benefit to him. Another Non-taxable example – a University department buys a table for a charitable event, which is attended by employees. There is no taxable fringe benefit for those employees attending.

Retirement Gifts; Departure Gifts

These gifts are taxable if they exceed the de minimis limit, or if they are in the form of cash or gift certificate. Retirement or departure receptions are not taxable since they are a traditional university business practice. The Regulations allow higher limits as an exception for traditional retirement awards given after lengthy service. They give a non-taxable example whereby each employee receives a gold watch as a retirement gift after 25 years service. But if the occasion is not retirement and there is no lengthy service, then such a gift would be taxable.

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