

Important News Regarding IRS Decision on Identity Theft Service Plans Provided by Employers

The IRS recently announced that employers who provide identity theft service plans to their employees are not to include the value of the plan in gross income reported on the employees W2's. Nor is an employee who receives identity theft service benefits from an employer or someone else (such as in a breach situation by a credit card company, or store) required to claim it on their tax return (W2 or 1099). This announcement retroactively covers the tax year of 2015.

It is an improvement of the prior IRS rule that allowed this benefit only in the event of a breach. Now, tax-free treatment is provided to all employees of all employers who provide identity theft services to their employees, even those employers who have no history of breach but are wanting to proactively guard against identity theft.

This rule provides employers another opportunity to provide their employees a low-cost benefit that can have a significant impact on the employee's financial future mitigating their risk of identity theft.

This announcement has no impact to employees who purchase identity theft benefits for themselves or through a payroll deduction.

Text of IRS Announcement 2016-02: Federal Tax Treatment of Identity Protection Services

"The Treasury Department and the IRS have determined that Announcement 2015-22 should be extended to include identity protection services provided to employees or other individuals before a data breach occurs. Accordingly, the IRS will not assert that an individual must include in gross income the value of identity protection services provided by the individual's employer or by another organization to which the individual provided personal information ... Additionally, the IRS will not assert that an employer providing identity protection services to its employees must include the value of the identity protection services in the employees' gross income and wages. The IRS also will not assert that these amounts must be reported on an information return (such as Form W-2 or Form 1099-MISC) filed with respect to such individuals. Any further guidance on the taxability of these benefits will be applied prospectively. This announcement does not apply to cash received in lieu of identity protection services."