



IRS UPDATES EMPLOYER GUIDE FOR 2018 TAX CHANGES TO FRINGE BENEFITS

OVERVIEW

The Internal Revenue Service (IRS) recently released the 2018 version of Publication 15-B — Employer’s Tax Guide to Fringe Benefits, which contains information for employers on the tax treatment of fringe benefits. The 2018 version is significant because it incorporates the changes made by the new tax law — the Tax Cuts and Jobs Act — to the following fringe benefits:

- Qualified transportation plans;
- Moving expense reimbursements;
- Employer-provided meals; and
- Employee achievement awards.

IRS Publication 15-B also discusses the tax rules for a variety of other fringe benefits and includes key benefit limits for 2018.

ACTION STEPS

- Employers that offer fringe benefits should review the 2018 version of Publication 15-B and work with their tax advisors to implement the tax changes.

HIGHLIGHTS

- The IRS recently released the 2018 version of Publication 15-B - Employer’s Tax Guide to Fringe Benefits.
- The 2018 version includes the new tax law’s changes to fringe benefits.
- Employers that offer fringe benefits should review IRS Publication 15-B and work with their tax advisors to implement any necessary changes.

IMPORTANT DATE

- **January 1, 2018**
Most of the new tax law’s changes for fringe benefits took effect.



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FRINGE BENEFITS - TAX RULES

A fringe benefit is a form of additional pay for an employee’s performance of services. Fringe benefits may include, for example, employer-provided cars, discounts on property or services, memberships in country clubs or other social clubs, and tickets to entertainment or sporting events. Fringe benefits are generally included in an employee’s gross income, unless a specific tax exclusion applies.

The Internal Revenue Code includes tax exclusion rules for certain types of fringe benefits, such as transportation benefits, meals, achievement awards, educational assistance and dependent care assistance. These tax rules exclude all or part of the value of certain fringe benefits from employees’ pay. In most cases, the excluded benefits are not subject to federal income or employment tax withholding, and are not reported on IRS Form W-2.

IRS PUBLICATION 15-B

IRS Publication 15-B contains information for employers on the tax treatment of certain kinds of fringe benefits. The IRS updates Publication 15-B each year for tax law changes. The 2018 version of Publication 15-B is significant because it includes changes made by the new tax law and it is the IRS’ first official piece of guidance on how the tax law changes impact fringe benefits.

Key provisions of Publication 15-B include the following:

- **Qualified transportation benefits** — Effective for 2018, **no employer deduction** is allowed for qualified transportation benefits. IRS Publication 15-B clarifies that the employer deduction is disallowed when the qualified transportation benefits are paid directly by the employer, through a bona fide reimbursement arrangement or through a compensation reduction agreement. Thus, employers cannot deduct the wages that employees choose to contribute on a pre-tax basis for qualified transportation benefits.

IRS Publication 15-B does not address the unrelated business income tax (UBIT) issue for tax-exempt employers that provide transportation benefits.

While employers may no longer deduct payments for qualified transportation benefits, the fringe benefit exclusion rules still apply and payments for qualified parking, commuter expenses and transit passes may be excluded from employees’ wages. However, the tax exclusion for **qualified bicycle commuting reimbursements** is suspended for tax years beginning after Dec. 31, 2017, and before Jan. 1, 2026.

IRS Publication 15-B confirms that the loss of the employer deduction for qualified transportation benefits also applies to pre-tax salary deferrals by employees for qualified parking, commuter expenses or transit passes.

- **Moving expense reimbursements** — The tax exclusion for qualified moving expense reimbursements is suspended for tax years beginning after Dec. 1, 2017, and before Jan. 1, 2026. During this period, the exclusion is only available for members of the U.S. armed forces on active duty who move because of a permanent change of station.
- **Employee meals** — Effective for 2018, the 50 percent limit on deductions for food or beverage expenses also applies to food or beverage expenses that are excludable from employees’ income as a de minimis fringe benefit. However, food or beverage expenses related to employee recreation, such as holiday parties or annual picnics, are not subject to the 50 percent limit on deductions when made primarily for the benefit of employees, other than certain highly compensated employees.
- **Employee achievement awards** — Employers may exclude the value of tangible personal property that is given to an employee as an award for either length of service or safety achievement. The new tax law clarifies that the tax exclusion does not apply to awards of cash, cash equivalents, gift cards, gift coupons or gift certificates (other than arrangements in which the employee selects from a limited array of items preselected and preapproved by the employer). The tax exclusion also does not apply to vacations, meals, lodging, tickets to theater or sporting events, stock, bonds, other securities and similar items.

KEY FRINGE BENEFIT LIMITS

NUMBER	GUIDANCE SUMMARY
<p>Mileage Reimbursement</p>	<p>The business mileage rate is 54.5 cents per mile. Employers may use this rate to reimburse an employee for business use of a personal vehicle. Under certain conditions, employers may use the rate under the cents-per-mile rule to value the personal use of an employer-provided vehicle.</p>
<p>Qualified Transportation Benefits</p>	<p>The tax exclusion for qualified parking benefits is \$260 per month. The tax exclusion for commuter highway vehicle and transit passes is \$260 per month.</p>
<p>Health FSA Contributions</p>	<p>For plan years beginning after Dec. 31, 2017, an employee’s salary reduction contributions to a health flexible spending account (FSA) may not exceed \$2,650.</p>
<p>HSA Contributions</p>	<p>For 2018, health savings account (HSA) contributions cannot exceed \$3,450 for individuals with self-only coverage under a high deductible health plan (HDHP) and \$6,850 for individuals with family coverage under an HDHP. Individuals who are age 55 or older may make an additional \$1,000 catch-up contribution.</p>