A. OVERVIEW

This section provides brief explanations of several types of fringe benefits a state employee may be authorized to receive and the taxability classification of these benefits under Title 26 of the United States Code (USC), also known as the Internal Revenue Code (IRC). IRS Publication 15-B contains information regarding the tax treatment of these fringe benefits. (https://www.irs.gov/forms-pubs/about-publication-15-b)

Unless specifically excluded by law, employee fringe benefits are taxable and must be reported on Form W-2. Taxable noncash fringe benefits (including personal use of employer-provided motor vehicles) may be treated as being paid on a pay period, quarter, semi-annual, annual, or other basis. However, the benefits must be treated as paid no less frequently than annually. The State of Florida uses a special accounting period for vehicle fringe benefits, which is discussed later in this section.

Agencies may treat the taxable value of a single noncash fringe benefit as paid on one or more dates in the same calendar year, even if the employee receives the entire benefit at one time. For example, if an employee receives a noncash fringe benefit valued at $1,000, it may be taxed as if it was paid in four separate pay periods of $250 each within the same calendar year. The applicable income, Social Security, and Medicare taxes must be withheld on the date/dates chosen to treat the benefits as paid.

The deadlines for submitting taxable fringe benefits to the Bureau of State Payrolls (BOSP) depends upon the method of submission and the way taxes are collected. For employees that receive taxable fringe benefits and terminate employment, careful coordination of the final salary payment by the agency is necessary. Every effort must be made to avoid a situation in which the terminated employee owes the State money for unpaid Social Security and Medicare taxes.

B. ACCOUNTABLE PLAN

The State of Florida provides some benefits under the Treasury Regulation (Treas. Reg.) section 1.62-2(2), Accountable plans. Generally, reimbursements and allowances paid to an employee under an accountable plan are excluded from the employee's wages and are not subject to withholding, Social Security and Medicare taxes.

1. Requirements

To be considered an accountable plan, a reimbursement or other employee expense allowance arrangement must comply with the three following conditions:

- The expenditure must have a business connection that would be paid or incurred in connection with the agency's primary purpose but would not otherwise be paid to the employee as wages.
- The employee must adequately account for all expenditures to the agency within a reasonable period of time.
- The employee must return any excess reimbursement or allowance within a reasonable period of time.

2. Reasonable Period of Time

The IRS defines what a reasonable period of time is for requiring substantiation and the return of excess amounts.

- Advanced payments are made no more than 30 days before an employee incurs business expenses.
- Expenses are substantiated within 60 days after they are incurred or paid.
- Excess payments are returned to the employer within 120 days after being incurred or paid.
- Periodic statements should be provided to employees at least quarterly regarding unsubstantiated expenses or unreturned excess payments. The timeliness requirement will be satisfied if employee complies by substantiating the expenses or by refunding any excess within 120 days of the statement.

C. NONACCOUNTABLE PLAN

A nonaccountable plan is a reimbursement or expense allowance arrangement that does not meet one or more of the three conditions required of an accountable plan. Even if the agency has an accountable plan for reimbursements and expense allowances, the following payments are treated as being paid under a nonaccountable plan:

- Excess reimbursements that the employee does not return to the agency
- Reimbursements of nondeductible expenditures related to the agency

Reimbursement plans that provide the employee a fixed advance and then reimbursement after each trip for whatever is spent, so that the continuing advances remains fixed, are generally nonaccountable plans since they do not provide amounts reasonably calculated to match anticipated expenses or do not require the return of excess amounts.

Advances that exceed the time periods, or are not substantiated, or the excess not returned, become taxable income to the employee, subject to withholding income, Social Security, and Medicare taxes. Accountable Plans that provide advances to the employee are discouraged.

Any payments to an employee under a nonaccountable plan must be included in the employee's wages and are subject to withholding income, Social Security and Medicare taxes.

D. SPECIAL ACCOUNTING PERIOD

The State of Florida uses the special accounting period for certain *noncash fringe benefits*, including vehicle fringe benefits. The special accounting period allows the agency to compute the value of the benefits provided during the period beginning November 1 of the prior year and ending October 31 of the current calendar year. This gives the agency additional time to value noncash fringe benefits. A special accounting rule is used to value the noncash fringe benefits that are considered provided in the following year. (e.g., annual lease method, vehicle cents-per-mile method). The value of benefits provided in the last two months of a previous calendar year is included with the value of the benefits provided in the first ten months of the current calendar year. Social Security and Medicare taxes are calculated at the same percentage and as the current year's wages. The rule applies only to noncash fringe benefits *provided* during November and December, not to all benefits the agency treats as paid during those two months.

The State Chief Financial Officer informs current state employees of the special accounting period on the employee Annual Earnings and Benefits Statements. These statements are provided to employees annually on the Employee Information Center website (**Volume V, Section 9**). Agencies are required to inform new employees within 30 days after the date the agency first provides a vehicle to an employee.

E. AWARDS, PRIZES, AND GIFTS

1. Generally, awards and prizes provided to employees for outstanding achievement, money-savings suggestions, etc., are included in the employees' income and are subject to federal income tax withholding, and Social Security and Medicare taxes. There are exceptions for noncash length-of- service awards, safety, retirement, and de minimis awards and prizes that comply with several restrictions.

Satisfactory Service Awards
Pursuant to section 110.1245, Florida Statutes (F.S.), each department head is authorized to incur expenditures to award suitable framed certificates, pins, and other tokens of recognition to retiring state employees, state employees who demonstrate satisfactory service to the agency or state, and appointed members of a state board or commission whose service to the state has been satisfactory. Such awards may not cost more than $100 plus applicable taxes.

a. Nontaxable Satisfactory Service Awards

- Noncash awards such as framed certificates, pins and tokens-of-recognition.
- Noncash awards to retiring employees that meet the exclusion requirements for length-of-service awards or de minimis fringe benefits.

b. Taxable Satisfactory Service Awards

- Cash or cash equivalent awards such as a gift certificate, phone card, gift card or credit card.
- Noncash awards provided to employees for outstanding achievement, money saving suggestions, etc. are generally included in the employee's income.

The taxable value of awards and prizes must be reported to the BOSP using the On-Line Non-Cash Adjustment System. Refer to **Volume V, Section 7** for more information on entering a Non-Cash adjustment. Taxable noncash awards are subject to gross-up and the payment of all income tax withholding, Social Security and Medicare taxes by the agency. For an overview of Gross-Up procedures, refer to **Volume IV, Section 3**.

2. Nontaxable Awards, Prizes, and Gifts

Length-of-service awards and de minimis fringe benefit awards that meet certain requirements may be excludable from income. Any other awards, such as recognition awards, are taxable.

a. Length-of-Service Awards

- General Requirements – To qualify for exclusion from income, a length-of-service award must be an award of "tangible personal property," which does not include cash or gift cards, gift certificates, stocks, bonds, vacations, meals, lodging or tickets to theater or sporting events. Also, the award must be presented in a "meaningful presentation." An award presented upon the occasion of an employee's retirement is a length-of-service award subject to the IRS employee achievement award rules. However, under appropriate circumstances, a traditional retirement award will be excludable from income as a de minimis fringe benefit. Finally, the award must not be disguised compensation.

- Specific Requirements – To qualify as nontaxable a length-of-service award must not be presented for less than five years on the job and must not have been awarded to the same employee within the last four years.

b. De Minimis Awards and Prizes

Certain property or services of small value may be provided to employees without including the value in the employees' income if the following conditions are met:

- The value of the benefit is so small that accounting for it would be unreasonable or impractical.
- The employer must consider the frequency with which it provides the benefit to all its employees in making this determination.

Examples of nontaxable de minimis benefits:

- Certificates, pins, and other tokens of recognition, having nominal value.
- Coffee and donuts provided to employees.
- Traditional holiday gifts (e.g., turkeys, candy) with a small value (no cash or cash equivalents).
- Flowers, fruit, books, or similar property provided to employees under special circumstances (e.g., because illness, or family crisis).
- Transitional awards that are presented upon retirement, such as gold watches for 25 years of service, are excludible even though they are typically of higher value.

The IRS has never set a specific dollar maximum on the value of a de minimis fringe benefit before it becomes taxable. If the value of the item is readily ascertainable, it would not constitute a de minimis fringe benefit because accounting for it would not be unreasonable or administratively impracticable.

3. Taxable Awards, Prizes, and Gifts

Generally, noncash awards, prizes, and gifts provided to employees are included in the employees' income.

a. Cash and Cash Equivalents

- Any cash award, regardless of the amount is taxable.
- Cash equivalents, such as a gift certificates, gift cards or credit cards are taxable, even if the property or service acquired (if provided in kind) is excludable. Gift certificates and cards have a "readily ascertainable" value that can easily be accounted for. Gift certificates and gift cards generally do not qualify as de minimis fringes since they are considered cash equivalents.

b. Other Taxable Awards, Prizes and Gifts:

- Savings bonds.
- Season tickets to sporting or theatrical events.
- An individual membership in a private country club or athletic facility, regardless of the frequency with which the employee uses the facility.
- Awards having a fair market value of $100 do not qualify as de minimis fringes.

F. EDUCATION ASSISTANCE/TUITION WAIVERS

Employer provided education assistance may be excludable from the employee's income up to a maximum exclusion of $5,250 if the education is provided for job-related education under an accountable plan, or the education is not job-related and meets the IRS tests for a deductible business expense under IRC section 127, Education assistance programs.

1. Job-Related Education

Employer paid education assistance that is related to the employee's current job is excludable from the employee's income as a working condition fringe benefit. The education assistance, even amounts in excess of $5,250, will be considered a working condition fringe benefit when the education is job-related, and the amount paid would have been a deductible educational expense by the employee had the employee paid for it.

As provided by IRC section 132(d) and Treas. Reg. section 1.162-5, the following conditions must be met:

- The courses must not be necessary to meet the minimum education requirements of the current job.
- The courses are not taken to qualify the employee for a promotion or transfer to a different type of work.
- The education must be related to the employee's current job and must help maintain or improve the knowledge and skills required for that job (e.g., refresher or update courses). If the requirements change while the employee is working, employer-paid education designed to meet them is a working condition fringe benefit.

If these requirements are not met, tuition reimbursements must be included in employees' gross income and are subject to Social Security and Medicare taxes.

2. Non-Job-Related Education

Employer education assistance provided through a program meeting the requirements of IRC section 127 is excludable from income up to $5,250 per year for tuition, fees, books, supplies,

and equipment. The exclusion does not apply to supplies, tools, or equipment that may be retained by the employee after completion of the course of instruction, or meals, lodging or transportation. The term "education assistance" also does not include any course or other education involving sports, games, or hobbies unless the education has a reasonable relationship to your business or is required as part of a degree program.

An education assistance program is a separate written plan that provides education assistance only to your employees. The program qualifies only if all the following tests are met:

- The program benefits employees who qualify under rules that do not favor highly compensated employees.
- The program does not allow employees to choose to receive cash or other benefits that must be included in gross income instead of education assistance.
- You give reasonable notice of the program to eligible employees.

3. Exclusion for employer payments of student loans

The Coronavirus Aid, Relief, and Economic Security (CARES) Act added student loan payments (up to $5,250) to the types of benefits an employer may provide under an Educational Assistance Program. Employer-provided educational assistance benefits include payments made after March 27, 2020, and before January 1, 2026, whether paid to the employee or to a lender, of principal or interest on any qualified education loan incurred by the employee for education of the employee. Qualified education loans are defined in chapter 10 of Pub. 970. (https://www.irs.gov/pub/irs-pdf/p970.pdf)

4. State of Florida Tuition Waiver Program

Subject to approval by the agency, state universities and community colleges shall grant state employees tuition and fee waivers of up to six credit hours per term, for courses taken on a space-available basis, pursuant to section 1009.265, F.S. State employees include employees of the executive, legislative, and judicial branches of state government; however, anyone employed by a state university is not considered an employee for the state employee fee waivers.

In order to provide a tax-exempt benefit, state agencies must abide by the written plan document. The document includes eligibility requirements, benefit provisions, and limitations that conform with current statutes, appropriations proviso language, and general state employment policies relevant to this program. If an agency elects not to administer the program pursuant to a written plan document or fails to communicate the provisions of the qualified program to all eligible employees, waivers of tuition and fees could be subject to federal income, Social Security, and Medicare taxes.

For additional information see IRS Reg. §1.127-2, Qualified Educational Assistance Program and IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits (www.irs.gov).

5. Taxable Education Assistance

Each agency providing education assistance to its employees must determine whether the

assistance is excludable from gross income. Education not qualifying for income exclusion must be reported to the Bureau of State Payrolls for federal reporting and taxation purposes. Taxable values will be included with the employee's earnings through the employee record adjustment process. This process collects the Social Security and Medicare taxes on the next regular payroll after the employee record update is entered, or from the agency FLAIR account, but does not collect income taxes.

Employees should be notified of tax liabilities during the eligibility for enrollment approval process and, where applicable, provide employees an opportunity to request a tax exemption for job-related education. Agencies should notify employees having taxable education assistance of this additional tax liability so that they may adjust their Form W-4, Employee's Withholding Allowance Certificate, as needed. Documentation supporting courses determined to be tax exempt shall be retained by the agency. The final arbiter as to the tax exclusion is the IRS.

6. Reporting Taxable Education Assistance

Employing agencies must report taxable education assistance to BOSP using the On-Line Non-Cash Adjustments System (earnings code 9103). Instructions and submission deadlines for the online system are provided in **Volume V, Section 7** of this manual.

When entering taxable tuition values using the On-Line Non-Cash Adjustment System, agencies should use the following dates for the "Benefit End Date" field. Only taxable education assistance values are to be reported to BOSP.

TERM	BENEFIT END DATE
Spring	03/31/20YY
Summer	06/30/20YY
Fall	09/30/20YY

Taxable values must be reported in the current calendar year and cannot be carried over into the next calendar year. Employing agencies are encouraged to report these taxable values as soon as possible. If the employee is currently employed, the agency may report the value of the taxable tuition assistance over more than one pay period to distribute the collection of Social Security and Medicare taxes. Agencies collecting taxes through the payroll process in December should exercise care to ensure that the values are entered and approved prior to processing the last payroll of the year.

Prior to entering the adjustment, agencies should verify that the employee is still employed by the agency. To collect the taxes on payrolls, the agency must fill in the "EMPEE PAY CYCLE" field on the online noncash adjustment.

Agencies having taxable education assistance for employees no longer on the payroll must report those taxable values and pay the employer and employee FICA taxes. Employee taxes paid by the agency are considered additional income to the employee unless collected from the employee during the calendar year. To record this additional income, the agency should enter a "Y" in the "Gross Up (Y/N)" field on the online noncash adjustment.

Nontaxable values are not reported to BOSP. Documentation supporting nontaxable education assistance should be retained by the agency.

G. EMPLOYER-PROVIDED CLOTHING

The State of Florida's policy is to furnish uniforms, clothing, laundry service and safety footwear as perquisites to state officers and employees only in those specific instances where it is determined that the furnishing of such items is in the best interest of the State due to the exceptional or unique requirements of the position. The Department of Management Services (DMS) has established procedures for agencies to follow in developing a plan to be approved by DMS for the furnishing of perquisites to state officers or employees.

1. Items Issued to Employee

If a uniform is required by the employer for safety, security, or health purposes and is not suitable for everyday wear, the issuance to the employee of the uniform, or the purchase of the uniform by the agency, is a nonreportable and nontaxable event for federal employment tax purposes. Examples of these type items are safety equipment, special footwear, protective clothing, etc. These items may be processed directly through the Bureau of Auditing. The Reference Guide for State Expenditures, Perquisites can be found at Reference Guide for State Expenditures.

2. Payments Under Accountable Plan Rules

Allowances, advances or reimbursements for the purchase, maintenance or replacement of uniforms and tools that meet the requirements of an Accountable Plan, as noted in the beginning of this section, are not reportable and taxable events for federal employment tax purposes.

Expense accounting by the employee is required to have sufficient detail to identify the specific nature of each expense and therefore conclude that the expense is attributable to the agency's business activities. Expenses are not to be aggregated into broad categories such as clothing. Written statements substantiating expenses in vague non-descriptive terms such as cleaning, or shoes will not be accepted.

The following information must be provided and substantiated in order to make a reimbursement under an Accountable Plan:

a. Date expense incurred;

b. Amount of each separate expense item;

c. Specific description of each separate expense item;

d. Business reason or business benefit gained.

Form **DFS-A3-1929**, Accountable Plan Check-Off, should be completed and submitted with the voucher and supporting documents for Accountable Plan payments to employees for reimbursements, advances, and allowances for footwear, clothing, and tools.

3. Payments Under Nonaccountable Plan Rules

Allowances, advances, or reimbursements for the purchase, maintenance, or replacement of uniforms and tools that do not meet the requirements of an Accountable plan, as noted at the beginning of this section, are reportable and taxable events for federal employment tax purposes. These taxable payments should be submitted to BOSP using the People First System or via the On-Demand System. The procedures for the On-Demand System are found in Volume IV, Section 9.

H. EMPLOYER-PURCHASED RETIREMENT SERVICE CREDIT

The Florida Retirement System (FRS) is a defined benefit plan qualified under 26 U.S.C. Section 401(a). The FRS provides that eligible members may purchase extra retirement credits for in state and out-of-state public employment and other types of eligible employment (sections 121.1115 and 121.1122, F.S.).

1. Employee Purchased Retirement Service Credit

The purchase of retirement service credits by an employee is not a taxable event and is not reportable to BOSP or the Internal Revenue Service.

2. Employer Purchased Retirement Service Credit

The employing agency may purchase an eligible employee's retirement service credit subject to agency head approval and budget authority. The payment to the FRS for the purchase of retirement service credit by an employing agency is considered gross income to the employee in the year of purchase and is subject to federal withholding, Social Security, and Medicare.

3. Reporting Employer Purchased Retirement Service Credit

Agencies providing this non-cash benefit must report the taxable value for tax reporting and remitting to the IRS. Earnings Code 9142 has been assigned for this non-cash fringe benefit. Taxable values, the cost of the service credits being purchased by the Agency, should be reported to the BOSP utilizing the On-Line Non-Cash Adjustment System, Earning Code 9142. The system will automatically calculate the applicable taxes using the gross-up feature. The online non-cash adjustment system is accessed through the Payroll Main Menu (PYRL); refer to Volume V, Section 7 of the Payroll Preparation Manual. This section of the manual provides instructions on how to add and approve selected noncash adjustments. The agency's FLAIR account code is required if you use the gross-up feature and payment of employment taxes will be deducted from that FLAIR account code.

I. MOVING EXPENSES

The 2017 Tax Cut and Jobs Act suspended the exclusion from income of employer-provided, job related moving expenses for taxable years 2018 through 2025 (PUBL097.PS (congress.gov). During those years, agency payments and reimbursements for moving expenses will be subject to federal income tax withholding, Social Security, and Medicare taxes, including payments from the agency to third parties on behalf of the employee (e.g., payments to a moving company). The ability of a taxpayer to deduct moving expenses under IRC 2017 is also suspended through 2025, so the employee cannot deduct expenses for which the agency makes payments or reimbursements.

Prior to incurring or allowing an employee to incur moving expenses agencies should review the

requirements for payment under the Florida Statutes and the respective personnel rules. Payments of moving expenses must also comply with the Bureau of Auditing, Reference Guide for State Expenditures at Reference Guide for State Expenditures. Attorney General Opinion prescribes the conditions that allow an agency head to approve the payment of travel expenses related to a move. See AGO 81-34, Advisory Legal Opinion - Authority to pay relocation expenses (myfloridalegal.com).

Section 216.262(1)(f), F.S., requires the approval of DMS, unless delegated to the agency head for perquisites furnished by an executive branch state agency. DMS has delegated to the agency heads, or their designee, the approval of the payment of moving expenses.

Moving expenses for entities of the Judicial Branch as defined in section 216.011(1)(r), F.S., are governed by Section 10, of the Florida State Courts System Personnel Regulations Manual. The Chief Justice must approve perquisites furnished by the judicial branch.

1. Vouchering and Audit Requirements for Moving Expenses

Vouchers requesting payment for moving expenses **must** contain sufficient information for a determination of the proper taxation and reporting. This should include the following:

- The locations of the former and new principal places of work and residence, and the commuting distance between the employee's former home and new work location.

Moving expenses should be classified utilizing the following object codes:

- **Object Code 1361 – Moving Expenses – Third Party – Nonqualified** – Vendor eligible costs determined to be nonqualified moving expenses as described above, for packing and shipping household goods or privately-owned mobile homes, and travel expenses for state employees for authorized relocation expenses paid to a third party.
- **Object Code 2840 – Moving Expenses – Employee – Nonqualified** – Employee eligible costs determined to be nonqualified moving expenses as described above, for packing and shipping household goods or privately-owned mobile homes, and travel expenses for state employees for authorized relocation expenses paid directly to an employee.

Moving expense payments to vendors (object codes 1361) must include the employee as the sub-vendor. This is essential for the reporting of moving expense information to the IRS and employee and for the taxation of nonqualified moving expense payments.

Payment or reimbursement of "Moving Expenses" (object codes 1361 and 2840) will be reported as wages on Form W-2 and will be subject to employment taxes. Taxable values obtained from payment vouchers posted by the Bureau of Auditing will be included with the employees' earnings through the employee records adjustment process. These taxable values will not be included with the employees' regular salary payment and therefore, income tax will not be withheld. The process will collect the social security and Medicare taxes on the next regular payroll after the employee record adjustment has been approved. Agencies should notify employees having moving expenses of this additional tax liability so that they may adjust their Form W-4, Employee's Withholding Allowance Certificate, as needed.

If the employee is not included as the sub-vendor on the payment, a manual adjustment to the employee's record will be made by BOSP. This will include the collection of applicable taxes from the employing Agency.

The listed object codes have been established to work in conjunction with the following payroll earnings codes to facilitate the reporting and taxation of employee moving expenses.

OBJECT CODE	EARNINGS CODE	EQUIVALENT
1361	9196	Moving Expenses – Third Party – Nonqualified
2840	9197	Moving Expenses – Employee – Nonqualified

J. PERSONAL USE OF STATE AIRCRAFT

Aircraft owned, leased, or operated by any state agency shall be available for official state business only as authorized by agency heads. Internal procedures are required to be developed to ensure state aircraft are used only for official state business or for purposes consistent with official state business as defined in chapter 287, F.S.

Persons not on official state business may be transported on a space available basis when approved by and when accompanying the Governor, the Lt. Governor, a member of the Cabinet, the Speaker of the House of Representatives, and the President of the Senate or the Chief Justice of the Supreme Court. However, such transportation is not considered official state business, Chapter 60B-4.003, F.A.C.

1. Determining Taxable Personal Use

The value of an employee's business travel in a state-controlled aircraft is excluded from the employee's income as a working condition fringe benefit.

Transportation that is not for official state business may result in taxable income. If the travel is primarily personal, the value is included in the employee's income. Travel that combines business and personal purposes must be allocated to each. It is not necessary for an employee to be on a flight on an employer-provided aircraft to have the value of the flight imputed to the employee's income. If an employee's guests are on the flight because of their relationship to the employee, the employee is taxed on the value of the flight by the guests.

Spouses, dependents, or other persons that accompany employees on state business may also incur taxable income to the employee unless on bona fide state business (see IRC §274(m)(3)). Social security, Medicare, and income tax apply to any taxable income exceeding the amount, if any, paid by the employee for the flight.

2. Determining Taxable Value

Agencies may choose to value personal flights on state-controlled aircraft under either the general or special valuation rules. The special non-commercial flight valuation rule may be used to determine the value of benefits if they prove to be more advantageous than the general

fair market value. Agencies must use the same valuation method to value all personal flights by employees in any one calendar year.

- **General Valuation Rule**

  Under the general valuation method, the value of the flight is equal to the cost of chartering a comparable aircraft for a comparable flight. The charter cost must be allocated among all employees aboard, including those traveling on business.

- **Special Valuation Rule**

  Under the special valuation rule for noncommercial flights, the value of a flight is determined under the base aircraft valuation formula also known as the Standard Industry Fare Level formula (SIFL) by multiplying the SIFL cents-per-mile rates applicable for the periods during which the flight was taken by the appropriate aircraft multiple provided in section IRS Reg. §1.61–21(g)(7) and then adding the applicable terminal charge. The SIFL cents-per-mile rates in the formula and the terminal charge are calculated by the federal Department of Transportation and are reviewed semi-annually. The formula varies depending on if the employee taking the flight is a control employee (defined on pg. 19).

  [(SIFL x miles flown) x weight-based aircraft multiple] + terminal charge = value

  The aircraft fringe benefit valuation formulas are published twice per year in the Internal Revenue Bulletin as Revenue Rulings and are usually available in March and September.

  If an agency uses the special valuation rule to value any non-commercial flight provided to an employee, it must use the rule to value all eligible flights provided to employees during the calendar year.

3. Reporting Procedures

- Identify all employees and guests with personal flights on state aircraft.
- Determine the value of the flight using either general or special valuation rules less any reimbursement made by the employee.
- Subtract the nonpersonal value of the trip.

K. PERSONAL USE OF STATE-PROVIDED VEHICLES

Motor vehicles owned, leased, or operated by any state agency shall be available for official state business only as authorized by the agency head, as defined in sections 287.012 and 287.17, F.S. The term "official state business" may not be construed to permit the use of a motor vehicle for commuting purposes, unless special assignment of a motor vehicle is (1) authorized as a perquisite by DMS, (2) required by an employee after normal duty hours to perform duties of the position to which assigned, or (3) authorized for an employee whose home is the official base of operation. As used in section 216.262(1)(f), F.S. the term "perquisites" means those things, or the use thereof, or services of a kind that confer on the officers or employees receiving them some benefit that is in the nature of additional compensation, or that reduce to some extent the normal personal expenses of the officer or employee receiving them. *60B-1, F.A.C.*

The following information is provided to assist agencies with determining the substantiation requirements for employer-provided vehicles and the reporting requirements for personal use.

Taxability of Employer-Provided Vehicles

If an agency provides a vehicle that is used for business purposes, the value of the use is excluded from income as a working condition fringe benefit. Employees should maintain records to substantiate that all vehicle use was for business. Substantiation generally requires keeping daily records. All other use of the vehicle is generally considered taxable income to the employee, unless an exception applies.

If an employer-provided vehicle is used for both business and personal purposes, substantiated business use is not taxable to the employee. Personal use is taxable to the employee as wages.

1. Exclusion from Income

The value of the vehicle's use is not taxable if it qualifies for treatment as:

a. De Minimis Fringe Benefit

If the employee uses an employer-provided vehicle mainly for the agency's business, infrequent and brief side trips for personal reasons are considered de minimis benefits whose value is excluded from income. In determining whether the value of personal use of an employer-provided vehicle is de minimis, the agency must consider the frequency with which a vehicle is available to the employee for personal use.

b. Qualified Nonpersonal Use Vehicles

A qualified nonpersonal use vehicle is one that, by its design, is not likely to be used more than minimally for personal purposes. Use of these vehicles is considered a working condition fringe benefit and does not require substantiation for the use to be excluded from the wages of the employee.

Qualified nonpersonal use vehicles generally include the following vehicles:

- Marked police, fire, and public safety officer vehicles
- Unmarked vehicles used by law enforcement officers, if the use is officially authorized
- Ambulances and hearses
- Delivery trucks with only a driver's seat
- Moving vans
- School buses
- Passenger buses seating at least 20 passengers.
- Animal control vehicles
- Dump trucks
- Refrigerated trucks.
- Qualified utility repair vehicles
- Trucks with a loaded weight over 14,000 pounds.

2. Accounting for Vehicle Use

a. Substantiation Requirements

An administrative burden of employer-provided vehicles to both the employee and the agency is the recordkeeping requirements if the employee is permitted to use the vehicle for personal matters. If an employee uses an employer-provided vehicle for both business and personal travel, the employee must account to the agency for the business use. This is done by substantiating the usage (e.g., mileage), the time and place of the travel and the business purpose of the travel. Written records made at the time of each business use are the best evidence. Any use of an employer-provided vehicle by an employee that is not substantiated as business use is defined by the Internal Revenue Code to be personal use and is included in the employee's income.

b. Exception – Qualified Nonpersonal Use Vehicle

Use of a qualified nonpersonal use vehicle for commuting is excludable to the employee; and record-keeping and substantiation by the employee are not required by the IRS.

c. Safe Harbor Substantiation Rules – IRS Reg. § 1.132-5(e) and § 1.274-6T

Employees using employer-provided vehicles are **not** required to keep detailed records of vehicle use if **all** the following tests are met:

1) For vehicles not used for personal purposes:

- The vehicle is owned or leased by the agency and is provided to one or more employees for use in the agency's business
- When not in use, the vehicle is kept on agency's premises (i.e., motorpool cars)
- No employee using the vehicle lives at the agency's business premises
- The agency has a written policy prohibiting personal use, except de minimis use (such as stop for lunch between two business deliveries)
- The agency reasonably believes the vehicle is not used for any personal use (other than de minimis).

2) For vehicles not used for personal purposes other than commuting, the following conditions must apply:

- The vehicle is owned or leased by the agency and is provided to one or more employees for use in the agency's business
- For bona fide non-compensatory reasons, the agency requires the employee to commute to and/or from work in the vehicle
- The agency has established a written policy prohibiting personal use other than commuting and de minimis use.
- The agency reasonably believes that, except for commuting and de minimis use, no individual uses the vehicle for personal purposes.
- The employee is not a control employee (defined on pg. 19)
- The agency accounts for the commuting use by including the commuting

value in the employee's wages.

3) Recordkeeping

It is very important that the agency and employees maintain adequate records to determine the business and personal use of a company-provided vehicle. The employee should log the business use of the vehicle for each trip including the date, business purpose of the trip, and mileage. However, if the employee's business or personal mileage is the same for each period during a year (e.g., each week, month, etc.), adequate records kept during one period can be used to project totals for the entire year.

An agency can avoid these substantiation requirements by enforcing a written policy against personal use of vehicles it provides to employees, by meeting the rules governing the commuting valuation method, or by considering all employee use of the vehicles as personal use.

3. Determining Personal Use Value

Employee personal use of employer-provided vehicles that is not de minimis, and does not

qualify for some other exclusion must be included in the employee's income as a taxable fringe benefit. To determine the amount to include in the employee's income, the IRS provides employers with four methods for valuing employees' personal use of employer-provided vehicles.

Agencies may value the availability of personal use of an employer-provided vehicle under the general valuation method or one of three optional special valuation methods (the cents-per- mile valuation; the commuting valuation; and the lease valuation). The optional special valuation methods may be used only under certain circumstances.

The agency is not required to use the same valuation method for all vehicles or all employees. However, the agency must use only one valuation method for a vehicle if more than one employee uses the same vehicle. The value determined must then be allocated to all employees using the vehicle.

The following procedure should be used to determine how much to include in wages on the employee's Form W-2.

Step 1: Compute personal use based on miles driven.
Example: 2,000 personal miles ÷ 10,000 total miles = 20% Personal use

Step 2: Apply valuation rule – General Valuation Rules or one of the three optional special automobile valuation rules.

a. General Valuation Method

The general valuation method may be used to value the use of a vehicle under any circumstances. Under this rule, the value of a fringe benefit is its fair market value

(FMV). In general, the fair market value of an employer-provided vehicle is the amount the employee would have to pay a third party to lease the same or similar vehicle on the same or comparable terms in the geographic are where the employee uses the vehicle. A comparable lease term would be the amount of time the vehicle is available for the employee's use, such as a 1-year period.

Do not determine FMV by multiplying a cents-per-mile rate times the number of miles driven unless the employee can prove the vehicle could have been leased on a cents-per-mile basis.

Computation:

1. Determine what employee would pay to lease the vehicle (FMV).
2. Multiply FMV by % of personal use (see Step 1, above)
   Example: Cost to lease vehicle (FMV) for 1 year, plus the value of fuel provided $4,000
3. Multiply by personal use 20% 20%
4. Include in wage of employee $ 800

b. Cents-Per-Mile Valuation Method

Under this rule, the agency determines the taxable value of a vehicle provided to an employee for personal use by multiplying the standard mileage rate by the total miles the employee drives the vehicle for personal purposes. Personal use is any use of the vehicle other than use for agency business. The amount must be included in the employee's wages or reimbursed by the employee. The standard mileage rate effective January 1, 2023 is 65.5 cents per mile.

Use the cents-per-mile rule if the following requirements are met:

- It is reasonably expected the vehicle to be regularly used for agency business purposes throughout the calendar year. The vehicle meets the mileage test (driven, at least, 10,000 miles annually).

- The FMV of the vehicle cannot exceed $60,800 for cars placed into service in 2023 (indexed annually). The maximum values of cars placed into service in earlier years are:
  Before 01/01/1990 - $12,800

In Year	Amount	In Year	Amount	In Year	Amount
1990	$13,200	2001	$15,400	2012	$15,900
1991	$13,400	2002	$15,300	2013	$16,000
1992	$13,900	2003	$15,200	2014	$16,000
1993	$14,200	2004	$14,800	2015	$16,000
1994	$14,700	2005	$14,800	2016	$15,900
1995	$15,200	2006	$15,000	2017	$15,900
1996	$15,400	2007	$15,100	2018	$50,000
1997	$15,700	2008	$15,000	2019	$50,400
1998	$15,600	2009	$15,000	2020	$50,400
1999	$15,500	2010	$15,300	2021	$51,100
2000	$15,400	2011	$15,300	2022	$56,100

- if the employer does not provide the fuel, the mileage rate can be reduced by no more than 5.5 cents per mile.

Consistency Requirements – If the cents-per-mile method is used, the following requirements apply.

- The cents-per-mile method must be used on the first day the vehicle is available to any employee for personal use. However, if using the commuting method when the vehicle first becomes available to any employee for personal use, the agency can change to the cents-per-mile method on the first day for which the commuting method is not used.
- The cents-per-mile method must be used for all later years in which the vehicle is made available to any employee and the vehicle qualifies, except that that agency can use the commuting method for any year during which the vehicle use qualifies. However, if the vehicle does not qualify for the cents-per-mile method during a later year, use any other valuation method for which the vehicle then qualifies for that year and thereafter.
- The cents-per-mile valuation method must continue to be used if the agency provides a replacement vehicle to the employee and the primary reason for the replacement is to reduce federal taxes.

Items Included in the Cents-Per-Mile Rate – The cents-per-mile rate includes the value of maintenance and insurance. Do not reduce the rate by the value of any service included in the rate that the agency did not provide. The general valuation method can be used to consider the services provided for the vehicle. The cents-per-mile rate includes the value of fuel provided.

c. Commuting Valuation Method

Under this method, determine the value of a vehicle provided to an employee for commuting use by multiplying each one-way commute by $1.50. If more than one employee commutes in this vehicle, this value applies to each employee. The value of each commute must be included in the employee's income or reimbursed by the employee.

Use the commuting valuation method if **all** the following requirements are met:

- The vehicle is provided to the employee for use in agency business
- For non-compensatory business reasons, the agency requires the employee to commute to and/or from work in the vehicle. (employer-provided commuting pools will be treated as meeting this requirement if the vehicle is generally used each workday to carry at least three employees to and from work).
- The agency has established a written policy prohibiting the employee to use the vehicle for personal purposes other than for commuting or de minimis personal use and the policy is enforced. Personal use of a vehicle is all use that is not for agency business.
- The employee does not use the vehicle for personal purposes other than commuting and de minimis personal use.
- The employee who uses the vehicle for commuting is not a control employee.
  - A control employee for a government employer is either of the following:
    - An elected official, or an
    - An employee who earns more than a federal government employee at Executive Level V, See the Office of Personnel Management website at: https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages for compensation information.

Instead of using the above definition of a control employee, the agency may treat all highly compensated employees as control employees for the purpose of using the commuting valuation method. A highly compensated employee for 2023 is an employee who received more than $135,000 in pay for the preceding year. This can be ignored if the employee wasn't also in the top 20% of employees when ranked by pay for the preceding year.

d. Annual Lease Valuation Method

Under this method, the FMV of an employee's personal use of an employer-provided vehicle is determined by using its annual lease value multiplied by the percentage of personal miles driven. For an automobile provided only part of the year, use either its

prorated annual lease value or its daily value. The annual lease value does not include the value of employer-provided fuel. The agency may determine the value of the fuel by using the actual cost of the fuel or the IRS approved rate of 5.5 cents-per-mile in 2023.

Prorated Annual Lease Value

If a vehicle is provided to an employee for a continuous period of 30 days or more but less than an entire calendar year, prorate the annual lease value (ALV) using the following formula:

Prorated ALV = ALV x (number of available use days ÷ 365)

If the car is available to the employee for periods less than 30 consecutive days during the year, the agency should treat the car as being available for 30 days to

avoid harsher valuation rules (unless the availability is 7 or fewer days per year).

Consistency Requirements – If the lease value method is used, the following requirements apply.

- The lease value method must be used on the first day the vehicle is made available to any employee for personal use. However, if the commuting method is used when the vehicle is first made available to any employee for personal use, the agency can change to the lease value method on the first day for which the commuting method is not used. If the cents-per-mile method is used when the vehicle is first made available to any employee for personal use, the agency can change to the lease value method on the first day vehicle no longer qualifies for the cents-per-mile use.
- The lease value method must be used for all later years in which the vehicle is made available to any employee, except that the commuting method is used for any year during which the vehicle qualifies.
- The cents-per-mile valuation method must continue to be used if the agency provides a replacement vehicle to the employee and the primary reason for the replacement is to reduce federal taxes.

Annual Lease Value Calculation

Here are the steps the agency must take to use the annual lease method:

- The agency must determine the fair market value of the car as of the first day it was made available to any employee for personal use. For employer-owned vehicles, this is the total cost of the car to an individual in an arm's length transaction (including sales tax and title fees.) For employer-leased vehicles, the value can be determined by using a nationally recognized pricing source, such as the "blue book." Whether the car is owned or leased by the agency, its value must be recalculated after four full calendar years. If the vehicle is transferred to another employee, the annual lease value may be recalculated based on the car's fair market value on January 1 of the calendar year of the transfer.

- Find the car's fair market value in Table 3-1. Annual Lease Value Table

1) Automobile FMV	(2) Annual Lease Value	1) Automobile FMV	(2) Annual Lease Value	1) Automobile FMV	(2) Annual Lease Value
$ 0 to 999	$ 600	$15,000 to 15,999	$4.350	$34,000 to 35,999	$9,250
1,000 to 1,999	850	16,000 to 16,999	4,600	36,000 to 37,999	9,750
2,000 to 2,999	1,100	17,000 to 17,999	4,850	38,000 to 39,999	10,250
3,000 to 3,999	1,350	18,000 to 18,999	5,100	40,000 to 41,999	10,750
4,000 to 4,999	1,600	19,000 to 19,999	5,350	42,000 to 43,999	11,250
5,000 to 5,999	1,850	20,000 to 20,999	5,600	44,000 to 45,999	11,750
6,000 to 6,999	2,100	21,000 to 21,999	5,850	46,000 to 47,999	12,250
7,000 to 7,999	2,350	22,000 to 22,999	6,100	48,000 to 49,999	12,750
8,000 to 8,999	2,600	23,000 to 23,999	6,350	50,000 to 51,999	13,250
9,000 to 9,999	2,850	24,000 to 24,999	6,600	52,000 to 53,999	13,750
10,000 to 10,999	3,100	25,000 to 25,999	6,850	54,000 to 55,999	14,250
11,000 to 11,999	3,350	26,000 to 27,999	7,250	56,000 to 57,999	14,750
12,000 to 12,999	3,600	28,000 to 29,999	7,750	58,000 to 59,999	15,250
13,000 to 13,999	3,850	30,000 to 31,999	8,250		
14,000 to 14,999	4,100	32,000 to 33,999	8,750		

- Calculate the percentage of personal miles driven during the year. (personal miles driven/total miles driven)

- Calculate the fair market value of the employee's personal use of the car that must be included in the employee's income. (annual lease value x percentage of personal miles driven).

L. QUALIFIED TRANSPORTATION BENEFITS

Agencies may provide IRC §132(f) qualified transportation fringe benefits to employees pursuant to the establishment of a qualified transportation benefits program, without including the fair market value of the benefit in their income. Section 132(f) provides that employees may choose between cash compensation and a qualified transportation fringe benefit through a salary reduction agreement. Since qualified transportation benefits cannot be offered under a §125 cafeteria plan, they must be kept separate from any cafeteria plan benefits. The law does not require that an employer's qualified transportation fringe benefit plan be in writing; but does stipulate requirements for compensation reduction elections.

Qualified transportation benefits include:

1. Transportation in a commuter highway vehicle for travel between the employee's home and workplace if:

   - the vehicle seats at least 6 adults other than the driver
   - at least 80% of the vehicle's mileage is attributable to commuting
   - at least 50% of the vehicle's seating capacity (excluding the driver) is used by employees

2. Transit passes, vouchers, tokens, or fare cards, or reimbursement for them by the agency. The use of electronic media for mass transit (smartcards, debit or credit cards) may be excludable from gross income.

3. Qualified parking – parking for which the agency pays (either to the operator or by reimbursing the employee) or provides on premises it owns or leases.

   Qualified parking does not include:
   - The value of parking provided to an employee that is excludable from gross income under §132(a)(3) as a working condition fringe benefit, or
   - Reimbursement paid to an employee for parking costs that is excludable from gross income as an amount treated as paid under an accountable plan.
   - Parking on or near property used by the employee for residential purposes.

4. Qualified bicycle commuting reimbursement was suspended in 2017 for tax years 2018-2025.

Exclusion limits

The excluded benefit value limit for 2023 is $300 per month and applies to:

- Combined commuter highway vehicle transportation and transit passes, Qualified parking

Determining the Value of Qualified Benefits

The value of a qualified transportation fringe benefit must be calculated on a monthly basis to determine whether any part of the benefit is included in income. If the value for any month is less than the exclusion limit (defined above), the unused portion cannot be carried over and added to any other month. Reimbursements to employees may be made in subsequent months, so long as the value of the benefit is calculated on a monthly basis.

A "month" is defined as a calendar month, or any substantially equivalent period applied consistently. Any monthly benefit over the limit must be included in the employee's income (minus any amount the employee paid for the benefit).

1. Commuter Highway Vehicle

A commuter highway vehicle is any vehicle that seats at least 6 adults (not including the driver) and 80% of the mileage will be for transporting employees between home and work, with employees occupying at least one-half the vehicle's seats.

If the vehicle is provided by the agency for commuting use, the value is calculated at $1.50 for each one-way commute. If more than one employee commutes in the vehicle, this value applies to each employee.

2. Transit Passes

A transit pass is any pass, token, fare card, voucher or similar item entitling the employee to ride, free of charge or at a reduced rate, on either mass transit or in a vehicle that seats at least 6 adults (not including the driver).

The value is its purchase price, not the face amount of the pass.

For transit passes provided by the agency to the employee, the monthly limit applies to the transit passes for all months for which the passes are distributed. Transit passes can be provided in advance for 2-12 months, and the monthly value of a pass that is valid for more than one month (e.g., an annual pass) may be calculated by dividing the total value of the pass by the number of months for which it is valid.

3. Qualified Parking

Qualified parking is parking provided to employees on or near the work site. Including parking on or near the location from which an employee commutes to work using mass transit, commuter highway vehicles, or carpools. However, it does not include parking at or near an employee's home.

Generally, the value of parking provided by an agency to an employee is based on the cost an individual would incur to obtain parking at the same site. Another spot in the same lot or in the same general location can be used if the cost of the exact spot is not ascertainable.

Cash Reimbursements and Substantiation Requirements

1. Qualified Parking and Commuter Highway Vehicle

The regulations allow agencies to provide cash reimbursements (not cash advances) for expenses incurred or paid by the employee for transportation in a commuter highway vehicle or qualified parking. However, such reimbursements must be made under a "bona fide" reimbursement arrangement.

2. Transit Passes

Cash reimbursement for transit passes is allowed only if vouchers or some equivalent are not readily available for direct distribution to the employee by the agency. A voucher is "readily available" if the agency can obtain it without paying more than the employee and without incurring a significant administrative cost (a fee paid to the provider of the voucher). The determination of significant administrative cost is made for each type of voucher, not all vouchers as a whole. Administrative costs are significant if the average annual costs incurred by the agency for a voucher (disregarding delivery charges imposed by the provider up to $15 per order) are more than 1% of the average annual value of the vouchers for a mass transit system.

Bona Fide Reimbursement Arrangements

Agencies that make cash reimbursements must establish a bona fide reimbursement arrangement, including substantiation requirements, to confirm that their employees have actually incurred qualified transportation expenses. The establishment of a bona fide reimbursement arrangement depends on the particular facts and circumstances, including the methods of payment utilized.

A payment made before the date an expense has been incurred or paid is not a reimbursement. In

addition, a bona fide reimbursement arrangement does not include an arrangement that is dependent solely upon an employee certifying in advance that the employee will incur expenses at some future date.

Substantiation Requirements

Substantiation procedures include having the employee provide a parking receipt or a used transit pass, and certify that the parking, or transit pass was used by the employee. Certification of both the type and amount of the expenses is acceptable where a receipt is not normally provided (e.g., metered parking or used transit passes that are not returned to the user). The certifications do not meet the requirements if the employer has reason to doubt them. Certifications can be provided only after the expense has been incurred. Substantiation within 180 days after an expense had been paid meets the requirement that substantiation occur within a reasonable period of time.

Substantiation Requirements for Employer-Distributed Transit Passes

There are no substantiation requirements if the agency distributes transit passes. Thus, an agency may distribute a transit pass for each month with a value not more than the statutory monthly limit without requiring any certification from the employee regarding the use of the transit pass.

Reimbursements for Periods Longer Than One Month

Reimbursements can be made to employees for costs incurred more than one month, provided the reimbursement for each month in the period is calculated separately and does not exceed the applicable statutory limit for any month in the period.

Salary Reduction Plans

Agencies may provide IRC §132(f) qualified transportation fringe benefits to its employees, pursuant to the establishment of a qualified transportation benefits program and pre-tax payroll deduction codes. Agency requirements for the establishment of pre-tax deduction codes for a qualified transportation benefits program are described in **Volume V, Section 4** of this manual.

Note: Internal Revenue Code §132(f) transportation fringe benefit plans are completely separate from and have more lenient election requirements than IRC §125 cafeteria plans. A qualified transportation benefit plan cannot be included under §125 cafeteria plan.

Generally, qualified transportation fringe benefits can be excluded from an employee's wages under a salary reduction agreement. However, the IRS has ruled that where an employer reduces its employees' wages in return for parking provided by the employer and then "reimburses" the employees so that their net pay is the same as before the reduction in wages, the "reimbursements" are taxable income to the employees. Because the parking was treated as provided by the employer rather than paid for by the employee, the "reimbursement" is not excludable because the employee has not incurred an expense for the parking that can be reimbursed.

Salary Reduction Election Requirements

a **Right to choose** – The election provides the employee the right to elect whether the

employee will receive a fixed amount of compensation at a specified future date or a fixed amount of qualified transportation fringes to be provided for a specified future period (such as qualified parking to be used during a future calendar month).

b. **Must be in writing** – The election must be made in writing or in another permanent and verifiable form (electronic) that includes information required to be in the election: (1) the date of the election; (2) the amount of compensation to be reduced; and (3) the period for which the benefit will be provided.

c. **Limit on the amount of the election** – The compensation reduction amount cannot exceed the monthly limits for transportation benefits. ($300 for 2023 as described on pg. 22)

d. **Timing of the election** – The election must be made before the employee is able currently to receive the taxable compensation. The election may be automatically renewed for subsequent periods.

e. **Not revocable/Not refundable** – The election may not be revoked after the beginning of the period for which the qualified transportation will be provided. An employee may not subsequently receive the compensation in cash or any form, other than by payment of a qualified transportation fringe under the agency's plan. Thus, an agency's qualified transportation fringe benefit plan may not provide that an employee who ceases to participate in the agency's qualified transportation fringe benefit plan (such as in the case of termination of employment) is entitled to receive a refund of the amount by which the employee's compensation reductions exceed the actual qualified transportation fringes provided to the employee by the agency.

Withholding On and Reporting Excess Benefits

Employers are governed by the general rules for withholding on and reporting the taxable value of qualified transportation fringe benefits included in an employee's gross income. Non-cash benefits (e.g., transit passes, parking) can be treated as paid on a pay period, quarterly, semiannually, or annual basis so long as this is done by December 31 of the year they are provided. The special accounting rule is also available when accounting for non-cash transportation benefits (not reimbursements). Cash reimbursements in excess of the exclusion limits must be deemed paid when actually paid to the employee. Regardless of the method by which the employee receives the benefits, they must be calculated on a monthly basis to determine whether they exceed the statutory exclusions. Based on the general formula for determining the fringe benefit amount that is included in income, the amount of a qualified transportation fringe that is included in income is the amount by which the fair market value of the benefit exceeds the exclusion amount plus any amount paid by the employee for the benefit. This amount is subject to federal income tax withholding, Social Security, and Medicare taxes.

Employee Savings – Employees electing pretax payroll deductions will experience reduced taxable income and reduced Social Security, Medicare, and federal income tax withholding. The reductions will be included on Form W-2 Wage and Tax Statement, boxes 1 through 6. The gross reduction amount will be shown in box 14 and labeled "132."

Employer Savings – The employing agency will experience a corresponding reduction in

employer contributions associated with Social Security and Medicare tax contributions. The Bureau of State Payrolls will not collect, deposit or document employer savings.

Special Rules for Terminated Employees

There are special rules governing the situation where transit passes are provided in advance to an employee who terminates employment before the beginning of one or more months for which the pass is valid.

- The value of transit passes provided in advance to an employee for any month after the employee terminates employment is included in the employee's wages for income tax purposes.
- The value of transit passes provided in advance to an employee is not subject to federal income tax withholding, Social Security, or Medicare taxes if the passes are not distributed more than 3 months in advance and when they were distributed there was no established date for the employee's termination before the last month for which the transit passes are provided.
- If there is an established termination date for the employee when the transit passes are distributed up to 3 months in advance and the employee does terminate before the last month for which the transit passes are provided, the value of the passes provided for the months after the employee terminates is subject to federal income tax withholding, Social Security, and Medicare taxes.
- If the employer distributes transit passes in advance to the employee for more than 3 months, the value of the passes for the months after the employee terminates is subject to federal income tax withholding, Social Security, and Medicare taxes regardless of whether there was an established date of termination for the employee when the passes were distributed.

2. Effect on Other Benefits

Social Security – Because a salary reduction agreement reduces the employee's gross income for FICA tax purposes, Social Security benefits may be slightly reduced for those employees under the maximum salary limitation for social security contributions.

IRC Section 125 Plan – A qualified transportation fringe benefit program cannot be part of an IRC §125 cafeteria plan; otherwise, a pretax transportation benefit will have no effect on a
§125 plan.

Retirement Plans – The Consolidated Appropriations Act of 2001, signed into law on December 21, 2000, amended IRC §415(c)(3) and IRC §403(b) to include salary reduction amounts for qualified transportation fringe benefits within the definition of compensation. As a result, salary reduction amounts for qualified transportation fringe benefits will not affect the state's qualified retirement plans (FRS, ORP, OAP, and PEORP) or supplemental 403(b) plans. IRC §457 defines "includible compensation" as the participant's income as defined in IRC § 415(c) (3). Salary reduction amounts for qualified transportation fringe benefits will not affect the state's deferred compensation program.

Other Compensation-Based Benefits – For other compensation-based benefits (such as disability, or life insurance coverage) that may be affected by the pretax salary reductions, the definition of compensation could be revised, although such revisions would generally require plan and/or contractual amendments and possibly statutory amendments.

M. TRAVEL EXPENSE REIMBURSEMENTS

Employer reimbursement of business-related travel expenses incurred by employees is one of the more complex areas regarding the taxability of payments to employees.

DMS oversees the Statewide Travel Management System, also known as STMS. It was implemented in 2018 and facilitates the electronic processing of travel reimbursements for government travelers and managers within the state's Executive and Cabinet agencies, as well as the Judiciary, as directed by Section 112.061 (16), Florida Statutes.

Additional guidance for travel related payments can be found in the Reference Guide for State Expenditures.

Guidance for Class C Travel can be found in **Volume IV, Section 7** of this manual.