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Employees' Fringe Benefits after Tax Reform

Article Highlights:

- Qualified Parking
- Transit Passes
- Bicycle Commuting
- Commuting
- Moving Deduction
- Achievement Awards
- Group Term Life Insurance
- Dependent Care Benefits
- Qualified Educational Assistance Programs

Tax reform made a lot of changes, some of which impacted employees' fringe benefits. This article reviews the most frequently encountered fringe benefits, including those that were and were not impacted by tax changes. These changes can affect both a business's bottom line and its employees' deductions.

BENEFITS IMPACTED BY TAX REFORM

Qualified Transportation Fringe Benefits – Qualified transportation fringe benefits include parking, transit passes, commuter (van pool) transportation, and bicycle commuting.

- Qualified parking – The tax-free fringe benefit for qualified parking is still available to employees and is capped at $265 per month for 2019, up from $260 in 2018.

- Transit Passes – The tax-free fringe benefit for transit passes is also still available to employees, up to $265 per month for 2019, an increase from $260 in 2018.

- Bicycle Commuting – Unfortunately, tax reform did away with the $20-per-month tax-free reimbursement for the cost of an employee commuting to work on a bicycle.

- Commuting – Tax reform killed the monthly commuting fringe benefit (which was $260 in 2018) except when necessary for ensuring the safety of an employee. When allowed, the maximum amount is the same as the transit pass fringe benefit.

However, even though they are excludable fringe benefits for employees, after 2017, employers can no longer deduct their expenses for parking or mass transit passes or commuter highway vehicle transportation provided to their employees.

Moving expenses – Before 2018 and after 2025, taxpayers who move because of a change in work location who meet certain distance and time requirements are able to deduct their moving costs in excess of any tax-free reimbursement from their employer. However, that deduction is suspended for 2018 through 2025, and any employer reimbursement is taxable and included in the employee's W-2.

There is one exception: moving expenses are still deductible for military members on active duty for moves pursuant to military orders.

Achievement awards – Employee achievement awards are excludable from income only to the extent that the award does not exceed $400 for any one employee or $1,600 for a qualified plan award. A qualified plan award means an employee achievement award awarded as part of an established written plan or program of the business that does not discriminate in favor of highly compensated employees.

Tax reform added the provision that to be tax-free, the award must be a tangible item. So awards of the following would be taxable to the employee recipient: cash, cash equivalents, gifts cards, gift coupons, gift certificates (other than if the employer pre-selected or pre-approved a limited selection), vacations, meals, lodging, tickets for theater or sporting events, stock, bonds, or similar items.

BENEFITS NOT IMPACTED BY TAX REFORM

Group Term Life Insurance – The first $50,000 of group term life insurance coverage provided by an employer is a tax-free fringe benefit that does not add anything to the employee's overall tax bill. But the cost of employer-paid group term coverage in excess of $50,000 is treated as taxable income and added to the employee's W-2. The cost of that insurance coverage is based on an IRS table and is frequently higher than the employer is actually paying for the insurance, which creates phantom income.

For older employees, the after-tax cost of the additional coverage frequently exceeds the cost for an individual term policy. It may be appropriate for certain employees to only utilize the first $50,000 in coverage and acquire an individual policy for any additional needed coverage.

Dependent Care Benefits – Employers can establish dependent care assistance plans for the exclusive benefit of their employees. The payments received under the plan that are used by employees to pay dependent care expenses are excludable from employees' income, up to the lower of:

1. The employee's earned income (for married employees, this is the earned income of the lower-paid spouse) or
2. $5,000 ($2,500 for married filing separate).

Dependent care assistance that exceeds the limits must be included in an employee's income for the year the dependent care is provided, even though it is not paid to the employee until later.

Qualified Educational Assistance Programs – If an employer has a written qualified educational assistance program, an employee may receive, on a tax-free basis, up to $5,250 each year for any form of instruction or training that improves or develops his or her capabilities, whether or not it is job-related or part of a degree program. However, no deduction or credit may be taken by the employee for any amount excluded from the employee's income as an education assistance benefit.

These are just a few of the fringe benefits that may have tax consequences. Please give this office a call if you have any questions related to them or other possibly excludable fringe benefits.