


**Wednesday, March 18, 2015**

8:30am – 10:30pm


IRS Audits – What to Expect and How Your  
City Can be Prepared

Kent Clark, Financial Director, Spanish Fork City




## Dealing with the IRS

Our Experience:      American Fork City  
Spanish Fork City



What do Earthquakes and IRS audits have common?



FORM 4564	Department of the Treasury Internal Revenue Service  INFORMATION DOCUMENT REQUEST	Request Number  #1
EMPLOYMENT TAX EXAMINATION		Subject: Initial Request
Spanish Fork City Corporation		SAIN Number Submitted to: Dave Oyler City Mgr
		Dates of Previous Requests

Description of Documents Requested

**Please provide the following items for 2012:**

1. Copies of all employees benefit packages and/or policies. The packages are requested for all classes of employees (rank & file, management, upper management, executive, elected, etc.).
2. Copies of any employee manuals, including any literature or other information provided to employees regarding participation in the City's deferred compensation, cafeteria, or other optional plans.
3. Copies of any independent or outside financial audit reports for most recent audit conducted.
4. Copies of all employment contracts for administrators, department heads, and all other employees with employment contracts.
5. Directory of accounts for your accounting system.
6. Disbursement/Accounts Payable records with directory of fields. Provide a paid invoice summary that identifies each vendor and total payments made to each during calendar year 2012.
7. Calendar year (2012) end payroll records with directory of fields. Provide a summary of types of payroll deductions and whether each deduction was subject to Federal Income Tax, Social Security Tax, and Medicare Tax.
8. Provide a report summarizing all payment to employees in 2012 for allowances, reimbursements, or benefits that were paid through accounts payable and not payroll.
9. Forms W-9 for all current vendors or contractors. Do not copy, just make available for review.

10. Copies of any "B" Notices sent to payees regarding missing or incorrect taxpayer identification numbers for calendar years 2012.
11. Copies of any correspondence received from Internal Revenue Service or the Social Security Administration regarding the filing of information returns such as Forms 1099 or W-2 for 2012.
12. Copies of your Internal Control Procedures for preparing and transmitting Forms W-2 and 1099.
13. Copies of written plan documents for all deferred compensation (including tax sheltered annuities), cafeteria, flexible spending, and other employee benefit plans (retired health savings plans, health reimbursement plans, etc).
14. Copies of all written policies for the following:
  - Accountable and Non-Accountable Plans
  - Automobile Allowances and/or Reimbursements
  - Travel Allowances and/or Reimbursements
  - Entertainment Allowances and/or Reimbursements
  - Employer Provided Automobiles
  - Meal Allowances and/or Reimbursements
  - Educational Assistance
  - Employer Provided Housing to Employees
  - Moving expense reimbursements
15. Attached is a spreadsheet (Exhibit 1) of 4 employees that also received Form 1099's during 2012. Please provide explanations, substantiation, invoices, etc. substantiating the services performed to receive a W-2 wage v. services paid as contract labor on the Form 1099.
16. Have the employer copies of Forms W-3 and W-2s available for review.
17. Forms 1096 and 1099s for 2012 available for review






## Dealing with the IRS

### Spanish Fork City


- They are looking for unpaid taxes.
- They are looking for ways to increase taxable income.
- They will find something. They will.
- If you give something to someone.....
  - It is taxable unless a rule says it is not.



## Dealing with the IRS

### Spanish Fork City

- Payroll Reporting
  - Reconcile (General Ledger = 941's = W-2's)
  - Income Inclusions (Taxable Fringe Benefits)
  - Income Exclusions (Café, HSA, Pensions)
  - Gross Payroll:
    - » Medicare Wages
    - » Taxable Wages



## Dealing with the IRS Spanish Fork City

- Employee vs. Contract Labor

- Recreation Workers:
  - (Umpires, Scorekeepers, interns, etc.)
- Election workers
- Remember:
  - Behavior Control, Financial Control, Relationship of the Parties.



## Dealing with the IRS Spanish Fork City

- Taxable Fringe Benefits:

- Cash Gift Cards – Any amount.
- Non-Accountable plans.....
- Commuting Rule – Policy must say Mandatory. Watch what kind of vehicle goes home.
- Employee Swim Passes – 50 punch pass \$160.
- Employee Golf Passes – 10 punch pass \$110.
- Executive Golf Passes – Season pass \$950



# Request for Taxpayer Identification Number and Certification

Give Form to the  
requester. Do not  
send to the IRS.

Print or type  
See Specific Instructions on page 2

Name (as shown on your income tax return)

Business name/disregarded entity name, if different from above

Check appropriate box for federal tax classification:

☐ Individual/sole proprietor ☐ C Corporation ☐ S Corporation ☐ Partnership ☐ Trust/estate

☐ Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=partnership) ▶

☐ Other (see instructions) ▶

Exemptions (see instructions):

Exempt payee code (if any) \_\_\_\_\_

Exemption from FATCA reporting  
code (if any) \_\_\_\_\_

Address (number, street, and apt. or suite no.)

Requester's name and address (optional)

City, state, and ZIP code

List account number(s) here (optional)

## Part I Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. The TIN provided must match the name given on the "Name" line to avoid backup withholding. For individuals, this is your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the Part I instructions on page 3. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How to get a TIN* on page 3.

**Note.** If the account is in more than one name, see the chart on page 4 for guidelines on whose number to enter.

Social security number

				-					
--	--	--	--	---	--	--	--	--	--

Employer identification number

				-					
--	--	--	--	---	--	--	--	--	--

## Part II Certification

Under penalties of perjury, I certify that:

1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and
2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and
3. I am a U.S. citizen or other U.S. person (defined below), and
4. The FATCA code(s) entered on this form (if any) indicating that I am exempt from FATCA reporting is correct.

**Certification instructions.** You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN. See the instructions on page 3.

Sign  
Here

Signature of  
U.S. person ▶

Date ▶

## General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

**Future developments.** The IRS has created a page on IRS.gov for information about Form W-9, at [www.irs.gov/w9](http://www.irs.gov/w9). Information about any future developments affecting Form W-9 (such as legislation enacted after we release it) will be posted on that page.

## Purpose of Form

A person who is required to file an information return with the IRS must obtain your correct taxpayer identification number (TIN) to report, for example, income paid to you, payments made to you in settlement of payment card and third party network transactions, real estate transactions, mortgage interest you paid, acquisition or abandonment of secured property, cancellation of debt, or contributions you made to an IRA.

Use Form W-9 only if you are a U.S. person (including a resident alien), to provide your correct TIN to the person requesting it (the requester) and, when applicable, to:

1. Certify that the TIN you are giving is correct (or you are waiting for a number to be issued),
2. Certify that you are not subject to backup withholding, or
3. Claim exemption from backup withholding if you are a U.S. exempt payee. If applicable, you are also certifying that as a U.S. person, your allocable share of any partnership income from a U.S. trade or business is not subject to the

withholding tax on foreign partners' share of effectively connected income, and

4. Certify that FATCA code(s) entered on this form (if any) indicating that you are exempt from the FATCA reporting, is correct.

**Note.** If you are a U.S. person and a requester gives you a form other than Form W-9 to request your TIN, you must use the requester's form if it is substantially similar to this Form W-9.

**Definition of a U.S. person.** For federal tax purposes, you are considered a U.S. person if you are:

- An individual who is a U.S. citizen or U.S. resident alien,
- A partnership, corporation, company, or association created or organized in the United States or under the laws of the United States,
- An estate (other than a foreign estate), or
- A domestic trust (as defined in Regulations section 301.7701-7).

**Special rules for partnerships.** Partnerships that conduct a trade or business in the United States are generally required to pay a withholding tax under section 1446 on any foreign partners' share of effectively connected taxable income from such business. Further, in certain cases where a Form W-9 has not been received, the rules under section 1446 require a partnership to presume that a partner is a foreign person, and pay the section 1446 withholding tax. Therefore, if you are a U.S. person that is a partner in a partnership conducting a trade or business in the United States, provide Form W-9 to the partnership to establish your U.S. status and avoid section 1446 withholding on your share of partnership income.

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January 2014

# Fringe Benefit Guide

Office of Federal, State and Local Governments

## Fringe Benefit Guide

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## 1 Introduction

The Taxable Fringe Benefits Guide was created by the Internal Revenue Service office of Federal, State and Local Governments (FSLG) to provide governmental entities with a basic reference guide to Federal tax rules relating to employee fringe benefits and reporting.

As a supplement to other IRS publications, the Taxable Fringe Benefit Guide is designed to help individuals responsible for determining the correct tax treatment of employee fringe benefits and the appropriate withholding and reporting procedures for them.

This publication covers:

- How to determine whether specific types of benefits or compensation are taxable.
- Procedures for computing the taxable value of fringe benefits.
- Rules for withholding Federal income tax, social security, and Medicare taxes from taxable fringe benefits.
- Reporting of the taxable value of benefits on Forms W-2 and 1099-MISC.
- How to contact the Internal Revenue Service with questions regarding taxation and reporting requirements.

### NOTICE

This guide is intended to provide basic information on the tax treatment of fringe benefits. It reflects the interpretation by the IRS of tax laws, regulations, and court decisions. The explanations in the guide are intended for general guidance only, and are not intended to provide a specific legal determination with respect to a particular set of circumstances. Additional research may be required before a determination may be made on a particular issue. Citations to legal authority are included in the text. You may contact the IRS for additional information. You may also want to consult a tax advisor to address your situation.

### What Is a Fringe Benefit?

A fringe benefit is a form of pay (including property, services, cash or cash equivalent), in addition to stated pay, for the performance of services. Under Internal Revenue Code section 61, all income is taxable unless an exclusion applies. Some forms of additional compensation are specifically designated as "fringe benefits" in the Internal Revenue Code; others, such as moving expenses or awards, are addressed by statutory

provisions providing for special tax treatment, but are not designated as fringe benefits by the Code. This publication uses the term "fringe benefit" broadly to refer to all remuneration other than stated pay for which special tax treatment is available. The definition of fringe benefits for this purpose generally applies to services of independent contractors as well as employees; however, unless otherwise indicated, this guide applies to fringe benefits provided by an employer to an employee. (For a discussion of whether a worker is an employee or independent contractor, see Publication 15-A.) Fringe benefits for employees are taxable wages unless specifically excluded by a section of the Internal Revenue Code (IRC). *IRC §61 IRC §3121, 3401; IRC §61(a)(1)*

More than one IRC section may apply to the same benefit. For example, education expenses up to \$5,250 may be excluded from tax under IRC section 127. Amounts for additional education expenses exceeding \$5,250 may be excluded from tax under IRC section 132.

A benefit provided on behalf of an employee is taxable to an employee even if the benefit is received by someone other than the employee, such as a spouse or a child. *Reg. §1.61-21(a)(4)*

### Types of Tax Treatment of Fringe Benefits

The IRC may provide that a fringe benefit is nontaxable, partially taxable, or tax-deferred. These terms are defined below.

**Taxable** – Includible in gross income, not excluded under any IRC section. If the recipient is an employee, this amount is includible as wages and reported on Form W-2, Wage and Tax Statement, and generally is subject to Federal income tax withholding, social security (unless the employee has already reached the current year social security wage base limit), and Medicare. For example, bonuses are always taxable because they are income under section 61 and no IRC section excludes them from taxation.

Fringe benefits that do not meet any statutory requirements for exclusion are fully taxable. Although there are special rules and elections for certain benefits, in general, taxable fringe benefits are reported as wages on Form W-2 for the year in which the employee received them. No tax reporting is required for benefits that meet the accountable plan rules, discussed below. *IRC §451(a); IRS Ann. 85-113, 1985-31*

If an employee's wages are not normally subject to social security or Medicare taxes (for example, because the employee is covered by a qualifying public retirement system), these taxes would not apply to fringe benefits the employee received. However, the value of the benefits is reportable for income tax withholding purposes.

**Nontaxable (excludable)** – Excluded from wages by a specific IRC section; for example, qualified health plan benefits excludable under section 105.

**Partially taxable** - Part is excluded by IRC section and part is taxable. Benefits may be excludable up to dollar limits, such as the public transportation subsidy under section 132.

**Tax-deferred** – Benefit is not taxable when received, but subject to tax later. For example, employer contributions to an employee's pension plan may not be taxable when made, but may be taxed when distributions are made to the employee.

#### General Valuation Rule

Generally, taxable fringe benefits are included in wages at their fair market value (FMV). FMV is the amount a willing buyer would pay an unrelated willing seller, neither one forced to conduct the transaction and both having reasonable knowledge of the facts. In many cases, the cost and FMV are the same; however, there are many situations in which FMV and cost differ, such as when the employer incurs a cost less than the value to provide the benefit. *Reg. §1.61-21(b)*

The taxable amount of a benefit is reduced by any amount paid by or for the employee. For example, an employee has a taxable fringe benefit with a fair market value of \$3.00 per day. If the employee pays \$1.00 per day for the benefit, the taxable fringe benefit is \$2.00 per day.

Special valuation rules apply for certain fringe benefits. These rules are covered in other sections.

#### IRC Sections Excluding Fringe Benefits

The following Code sections provide a statutory basis for specific benefits that may apply to public employees. Each is discussed later in the text.

- §105 – Benefits received through employer health or accident insurance
- §106 – Health insurance premiums paid by employer
- §117(d) – Qualified tuition reductions
- §119 – Meals or lodging provided for the employer's convenience
- §125 – Cafeteria plans
- §127 – Educational assistance program
- §129 – Dependent care assistance program
- §132(b) – No additional-cost service
- §132(c) – Qualified employee discounts
- §132(d) – Working condition fringe
- §132(e) – De minimis benefit

- §132(f) – Qualified transportation fringe
- §132(g) – Qualified moving expense reimbursements
- §132(j)(4) – On-premises athletic facilities
- §132(m) – Qualified retirement planning services
- §132(n) – Qualified military base realignment and closure fringe
- §137 – Adoption assistance programs





February 2014

# **Quick Reference Guide** for Public Employers

Office of Federal, State and Local Governments



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This guide is intended to provide basic information on the subjects covered. It reflects the interpretation by the IRS of tax laws, regulations, and court decisions. The explanations in the guide are intended for general guidance only, and are not intended to provide a specific legal determination with respect to a particular set of circumstances. Additional research may be required before a determination may be made on a particular issue. Citations to legal authority are included in the text. You may contact the IRS for additional information. You may also want to consult a tax advisor to address your situation.

### INTRODUCTION

This guide is produced annually by the IRS office of Federal, State and Local Governments (FSLG). It is intended to provide a brief introduction to basic federal employment tax and reporting information issues for governmental employers. For more detailed information in these areas, see IRS Publication 963, Federal/State Reference Guide. For a general discussion of employment tax responsibilities that apply to all employers, see Publication 15, Employer's Tax Guide. These publications discuss the general rules for reporting wages on Form W-2, Wage and Tax Statement, and on Form 941, Employer's Quarterly Employment Tax Return. They also address requirements for withholding and depositing of taxes. This guide is intended to focus on the key points facing public employers and to point to sources for further information.

### COMPENSATION

Compensation includes any property or services provided in exchange for services. This includes all cash and noncash remuneration for services performed by an employee for an employer, unless specifically excluded. Wages are subject to federal income tax, social security and Medicare tax, except where the law provides otherwise.

Generally, the medium in which the remuneration is paid is immaterial. Compensation may be paid in cash or, for example, services, bonds, inventory, or other forms of property. If services are paid for in a medium other than cash, the fair market value of the goods or services provided in payment is the amount to be included as wages.

### Employees

In general, an employee is anyone who performs services subject to the will and control of the individual or entity paying for the services. Payments to employees in the form of cash, property, services or other benefits are taxable wages, unless excluded by a specific provision of the law. Regulation Section 31.3401(a)-1 indicates that wages include noncash property or services received in exchange for services provided. For a more detailed discussion of how to determine whether a worker is an employee, see Publication 963 or Publication 15-A.

Employers report taxable wages on Form W-2, Wage and Tax Statement, which is furnished to the employees and transmitted to the Social Security Administration using Form W-3, Transmittal of Wage and Tax Statements.

### Independent Contractors

Any person or business that performs services for compensation and does not meet the control test for employees, discussed above, is an independent contractor. Generally, any payment of \$600 or more during a calendar year to an independent contractor should be reported to the payer on Form 1099-MISC, Miscellaneous Income, by January 31 of the following year. For purposes of an information return, an amount is deemed to have been paid when it is credited or set apart to a person without any substantial limitation or restriction. Never use Form 1099-MISC to report compensation or reimbursements to employees. Information reporting is discussed in greater detail in the Information Reporting Section and the Instructions for Form 1099-MISC.





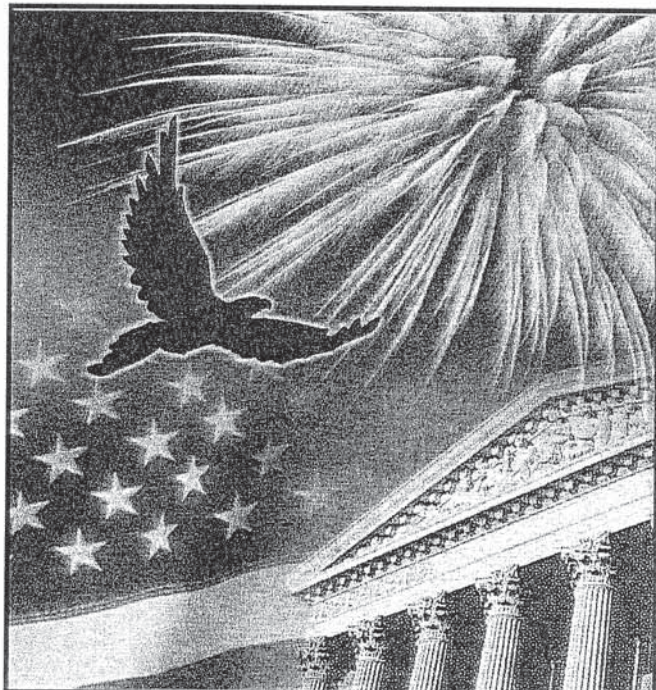
Department of the Treasury  
Internal Revenue Service

## Publication 15-B

Cat. No. 29744N

# Employer's Tax Guide to Fringe Benefits

For use in **2014**



Get forms and other information  
faster and easier by  
Internet at [IRS.gov](http://IRS.gov)

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## Future Developments

For the latest information about developments related to Publication 15-B, such as legislation enacted after it was published, go to [www.irs.gov/pub15b](http://www.irs.gov/pub15b).

## What's New

**Cents-per-mile rule.** The business mileage rate for 2014 is 56 cents per mile. You may use this rate to reimburse an employee for business use of a personal vehicle, and under certain conditions, you may use the rate under the