



## De Minimis Fringe Benefits

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In general, a de minimis benefit is one for which, considering its value and the frequency with which it is provided, is so small as to make accounting for it unreasonable or impractical. De minimis benefits are excluded under Internal Revenue Code section 132(a)(4) and include items which are not specifically excluded under other sections of the Code. These include such items as:

- Controlled, occasional employee use of photocopier
- Occasional snacks, coffee, doughnuts, etc.
- Occasional tickets for entertainment events
- Holiday gifts
- Occasional meal money or transportation expense for working overtime
- Group-term life insurance for employee spouse or dependent with face value not more than \$2,000
- Flowers, fruit, books, etc., provided under special circumstances
- Personal use of a cell phone provided by an employer primarily for business purposes

In determining whether a benefit is de minimis, you should always consider its frequency and its value. An essential element of a de minimis benefit is that it is occasional or unusual in frequency. It also must not be a form of disguised compensation.

Whether an item or service is de minimis depends on all the facts and circumstances. In addition, if a benefit is too large to be considered de minimis, the entire value of the benefit is taxable to the employee, not just the excess over a designated de minimis amount. The IRS has ruled previously in a particular case that items with a value exceeding \$100 could not be considered de minimis, even under unusual circumstances.

### Cash Benefits

Cash is generally intended as a wage, and usually provides no administrative burden to account for. Cash therefore cannot be a de minimis fringe benefit. An exception is provided for occasional meal or transportation money to enable an employee to work overtime. The benefit must be provided so that employee can work an unusual, extended schedule. The benefit is not excludable for any regular scheduled hours, even if they include overtime. The employee must actually work the overtime.

Meal money calculated on the basis of number of hours worked is not de minimis and is taxable wages.

### Gift certificates

Cash or cash equivalent items provided by the employer are never excludable from income. An exception applies for occasional meal money or transportation fare to allow an employee to work beyond normal hours. Gift certificates that are redeemable for general merchandise or have a cash equivalent value are not de minimis benefits and are taxable.

A certificate that allows an employee to receive a specific item of personal property that is minimal in value, provided infrequently, and is administratively impractical to account for, may be excludable as a de minimis benefit, depending on facts and circumstances.

### Achievement awards

Special rules apply to allow exclusion from employee wages of certain employee achievement awards of tangible personal property given for length of service or safety. These awards

- Cannot be disguised wages
- Must be awarded as part of a meaningful presentation
- Cannot be cash, cash equivalent, vacation, meals, lodging, theater or sports tickets, or securities.

In addition, there are other requirements specific to achievement and safety awards and there are dollar limitations that must be met. See [Publication 5137](#), *Fringe Benefit Guide* or [Publication 535](#) for more information.

## How are de minimis fringe benefits reported?

If the benefits qualify for exclusion, no reporting is necessary. If they are taxable, they should be included in wages on Form W-2 and subject to income tax withholding. If the employees are covered for social security and Medicare, the value of the benefits are also subject to withholding for these taxes. You may optionally report any information in box 14 of Form W-2.

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