

EMPLOYEE FRINGE BENEFITS

1.0 Purpose:

- 1.1 To establish policies and guidelines for the proper handling and taxing of certain employee fringe benefits to ensure compliance with IRS guidelines.

2.0 Scope:

- 2.1 All City employees who receive various benefits as detailed in this policy.

3.0 Policy:

3.1 Uniforms

According to the IRS, there are certain requirements for a uniform to be considered non-taxable: 1) employees must wear them as a condition of their employment, and 2) the clothes must not be suitable for everyday wear. Examples of employees who meet these requirements are uniformed police officers and firefighters. Per IRS Publication 17, Your Federal Income Tax, "It is not enough that you wear distinctive clothing. The clothing must be specifically required by your employer. Nor is it enough that you do not, in fact, wear your clothes away from work. *The clothing must not be suitable for taking the place of your regular clothing.*"

- 3.1.1 Uniformed police and fire personnel, as well as maintenance personnel, will not be taxed on the cost of their uniforms since they meet the above requirements.
- 3.1.2 Protective or safety clothing (i.e., steel-toed boots, work gloves, hard hats, safety glasses) required by the City, although it may have some personal use, is excluded from being taxed.
- 3.1.3 Employees will be taxed on clothing items such as Polo shirts with City logos, Carhart jackets, cargo pants, Dockers and blue jeans. These items are considered suitable for being worn as regular clothing and are not considered part of the uniform.
- 3.1.4 Police officers assigned to investigations who receive a clothing allowance will be taxed on the amount of the clothing allowance. The Finance Department will take regular withholding from these reimbursements.

3.2 Logo Wear

- 3.2.1 Certain employees are required to wear logo clothing as a condition of their employment. Because this clothing is suitable for everyday wear, it will be taxable to the employee. Examples of employees in this category may include members of the Recreation staff and building inspectors.
- 3.2.2 Certain departments purchase logo wear for their employees which is not required to be worn as part of their employment. Examples may include but not be limited to the Finance, IT, Community Development, Public Works Administration and CROYA departments. Employees choosing to receive this logo wear will be taxed on the cost of the clothing.

- 3.2.3 Tee shirts, ball caps and winter hats are excluded from being taxed due to the *de minimus* cost of these items, typically less than \$25 total.
- 3.2.4 Departments with employees who receive logo wear will be responsible for providing the Finance Department with a list of employees receiving logo wear and the value of the clothing by December 1 each year for the preceding calendar year. Information on those exempt under Section 3.2.3 need not be provided. All tax withholding will be a one-time lump-sum deduction from the employee's payroll check each December.
- 3.2.5 Employees are required to pay Federal, State, Social Security and Medicare taxes on all eligible clothing items. The amount of tax withheld from each employee will vary based on their tax reporting (i.e., tax bracket, dependents, marital status, etc.). It is estimated that the four deductions will total approximately 25-30% of the reported amount. Thus, if an employee has \$100 reported, the actual tax paid will be approximately \$25-\$30.

3.3 Laptop Computers

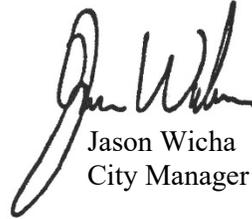
- 3.3.1 Occasionally, laptop computers may be taken home for business use. Personal use of these computers is prohibited and violations will result in disciplinary action.

3.4 Miscellaneous Reimbursements

- 3.4.1 Employees may receive reimbursement for certain work tools which ultimately become their personal property; i.e., vehicle mechanics receive an annual allowance to purchase tools. While these tools are used in their employment and are maintained on the work site, they remain the personal property of the employee. Therefore, these types of reimbursements will be taxed as part of the reimbursement process.
- 3.4.2 From time to time an employee may damage personal, non-uniform clothing during the performance of City duties. This clothing will not normally be reimbursable. In certain unusual situations, upon recommendation of the department head, the Director of Human Resources may approve reimbursement. The cost of the replacement clothing will be taxable to the employee.
- 3.4.3 Some employees receive Fitness Center memberships or Recreation program fee benefits. These benefits will be taxed. The Parks and Recreation Department will provide a list of these benefits to the Finance Department on an annual basis.

4.0 Distribution:

- 4.1 Employee Information Site, www.citylf.org, under HR/Personnel Policies.



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