

Table 2-1. Special Rules for Various Types of Fringe Benefits
(For more information, see the full discussion in this section.)

Treatment Under Employment Taxes			
Type of Fringe Benefit	Income Tax Withholding	Social Security and Medicare (including Additional Medicare Tax when wages are paid in excess of \$200,000)	Federal Unemployment (FUTA)
Accident and health benefits	Exempt ^{1,2} , except for long-term care benefits provided through a flexible spending or similar arrangement.	Exempt, except for certain payments to S corporation employees who are 2% shareholders.	Exempt
Achievement awards	Exempt ¹ up to \$1,600 for qualified plan awards (\$400 for nonqualified awards).		
Adoption assistance	Exempt ^{1,3}	Taxable	Taxable
Athletic facilities	Exempt if substantially all use during the calendar year is by employees, their spouses, and their dependent children, and the facility is operated by the employer on premises owned or leased by the employer.		
De minimis (minimal) benefits	Exempt	Exempt	Exempt
Dependent care assistance	Exempt ³ up to certain limits, \$5,000 (\$2,500 for married employee filing separate return).		
Educational assistance	Exempt up to \$5,250 of benefits each year. (See Educational Assistance , later in this section.)		
Employee discounts	Exempt ³ up to certain limits. (See Employee Discounts , later in this section.)		
Employee stock options	See Employee Stock Options , later in this section.		
Employer-provided cell phones	Exempt if provided primarily for noncompensatory business purposes.		
Group-term life insurance coverage	Exempt	Exempt ^{1,4,7} up to cost of \$50,000 of coverage. (Special rules apply to former employees.)	Exempt
Health savings accounts (HSAs)	Exempt for qualified individuals up to the HSA contribution limits. (See Health Savings Accounts , later in this section.)		
Lodging on your business premises	Exempt ¹ if furnished on your business premises, for your convenience, and as a condition of employment.		
Meals	Exempt ¹ if furnished on your business premises for your convenience.		
	Exempt if de minimis.		
Moving expense reimbursements	Exempt ¹ if expenses would be deductible if the employee had paid them.		
No-additional-cost services	Exempt ³	Exempt ³	Exempt ³
Retirement planning services	Exempt ⁵	Exempt ⁵	Exempt ⁵
Transportation (commuting) benefits	Exempt ¹ up to certain limits if for rides in a commuter highway vehicle and/or transit passes (\$255), qualified parking (\$255), or qualified bicycle commuting reimbursement ⁶ (\$20). (See Transportation (Commuting) Benefits , later in this section.)		
	Exempt if de minimis.		
Tuition reduction	Exempt ³ if for undergraduate education (or graduate education if the employee performs teaching or research activities).		
Working condition benefits	Exempt	Exempt	Exempt

¹ Exemption doesn't apply to S corporation employees who are 2% shareholders.
² Exemption doesn't apply to certain highly compensated employees under a self-insured plan that favors those employees.
³ Exemption doesn't apply to certain highly compensated employees under a program that favors those employees.
⁴ Exemption doesn't apply to certain key employees under a plan that favors those employees.
⁵ Exemption doesn't apply to services for tax preparation, accounting, legal, or brokerage services.
⁶ If the employee receives a qualified bicycle commuting reimbursement in a qualified bicycle commuting month, the employee can't receive commuter highway vehicle, transit pass, or qualified parking benefits in that same month.
⁷ You must include in your employee's wages the cost of group-term life insurance beyond \$50,000 worth of coverage, reduced by the amount the employee paid toward the insurance. Report it as wages in boxes 1, 3, and 5 of the employee's Form W-2. Also, show it in box 12 with code "C." The amount is subject to social security and Medicare taxes, and you may, at your option, withhold federal income tax.

stock or stock with more than 2% of the voting power. Treat a 2% shareholder as you would a partner in a partnership for fringe benefit purposes, but don't treat the benefit as a reduction in distributions to the 2% shareholder.

Exclusion from wages. You can generally exclude the value of accident or health benefits you provide to an employee from the employee's wages.

Exception for certain long-term care benefits. You can't exclude contributions to the cost of long-term care insurance from an employee's wages subject to federal income tax withholding if the coverage is provided through a

flexible spending or similar arrangement. This is a benefit program that reimburses specified expenses up to a maximum amount that is reasonably available to the employee and is less than five times the total cost of the insurance. However, you can exclude these contributions from the employee's wages subject to social security, Medicare, and FUTA taxes.

S corporation shareholders. Because you can't treat a 2% shareholder of an S corporation as an employee for this exclusion, you must include the value of accident or health benefits you provide to the employee in