FISCAL MEMORANDUM 97-07

TO: Administration
    Information and Technology Exchange Center
    Divisions/Centers

SUBJECT: Tax Withholding on Non-Salary Compensation Items, Moving Expense Issues, and Travel Advance Reminders

According to IRS regulations, certain cash payments made by an employer to or on behalf of an employee, and certain non-cash items provided to an employee, must be considered as taxable compensation and applicable social security and federal income taxes must be withheld.

Examples of non-salary cash payments are:

    Non-qualified Moving Expenses
    Employee Achievement Awards
    Awards for Suggestions

Examples of non-cash payments are:

    Employee Achievement Awards greater than $400
    Travel Advances - if not adequately accounted for within 60 calendar days from the completion date of trip

When a voucher is received in the Business Office for any of the above listed (or similar) cash transactions, a Request for Tax Withholding on Non-Salary Compensation Items form (copy attached) will be completed by the Business Office and forwarded to Engineering, Budgets and Payroll in order to have the necessary tax deductions withheld from the employee’s next paycheck.
In the case of non-cash transactions, the TTI Division/Area providing the item should notify the Business Office of the transaction and its cash value. The same Request for Tax Withholding on Non-Salary Compensation Items form will be completed by the Business Office and forwarded to Engineering Budgets and Payroll in order to have the necessary tax deductions withheld from the employee’s next paycheck.

**Non-Qualified Moving Expenses** include any reimbursements or payments made on behalf of an employee for expenses that are not allowed by the IRS as moving expenses. Employees must meet IRS regulations on moving expenses (IRS Publication 521) in order for reimbursements or payments on their behalf to be non-taxable. IRS regulations state that three tests must be met before any moving expense is allowable: move must be closely related to the start of work, a work time test for employees, and a distance test. In addition, IRS regulations state that meals are not an allowable moving expense and mileage for travel by car while moving is allowable up to .09 cents per mile or actual gasoline receipts may be provided.

*If you are making an offer to pay for a new employee’s moving expenses or a current employee’s relocation expenses, please be aware that any expenses not allowed by the IRS that are reimbursed or paid on behalf of the employee will be taxable to the employee.* Refer to IRS Publication 521 (Moving Expenses) or contact Marie Ethridge at 845-9595 for more information.

**Travel Advances** may be considered taxable income to the traveler unless the employee meets all three of the following tests:

a. Receives an advance within 30 days of the trip,
b. Adequately accounts for expenses within 60 days, and
c. Returns any excess advance within 120 days.

In order to assure that we are in compliance with these guidelines and to avoid penalties, the following measures must be taken by all divisions and areas of TTI.

a. Ensure that all travel advances are expended within 30 days.

Advances for travel ($100 minimum) are available from the TTI Business Office no earlier than three working days prior to the date of travel, with the exception of pre-advances for airline tickets. This time limitation should assure that the money will be utilized on a timely basis. However, if a trip is canceled, the money should be returned immediately to the TTI Business Office.
b&c. Ensure that expenditures are adequately accounted for within 60 days and that excess advance is returned within 120 days.

Current TTI policy specifies that all advances should be cleared by the submission of a travel voucher to the Business Office within 30 calendar days from the completion date of the travel. In addition, an individual may have only one outstanding advance at any given time. Adherence to these guidelines should prevent travel advances from becoming taxable income.

Advances for which properly completed travel vouchers (adequate accounting) are not received in the Business Office within 60 calendar days from the completion date of the travel will result in taxable income to the traveler for the amount of the advance. Taxation of the advance does not relinquish the employee from repaying the advance and submitting a travel voucher to the Business Office.

As a reminder, registration fees paid directly by an employee may not be reimbursed prior to attending a conference or seminar. Therefore, travel advances and pre-advances cannot be issued to pay for these fees. For more information on registration fees for conferences or seminars, please refer to Fiscal Memorandum 95-07.

Listed on the back of the Request for Tax Withholding on Non-Salary Compensation Items form (copy attached) are other items that are taxable benefits to the employees. If you have any questions regarding whether a benefit you are providing to an employee may be taxable or any questions on any of these issues, please contact Marie Ethridge at 845-9595.

Please notify any affected employee in your area of these non-salary compensation items and make him/her aware that withheld amounts will affect the net pay amount on his/her paycheck.

Don Bugh
Associate Agency Director

Attachment

DWB/ca