

State of California

M E M O R A N D U M

TO: PERSONNEL MANAGEMENT LIAISONS **DATE:** May 10, 2004
REFERENCE CODE: 2004-015

THIS MEMORANDUM SHOULD BE DISTRIBUTED TO:

Personnel Officers
Accounting Officers
Budget Officers
Travel and Relocations Liaisons
Claims Coordinators

FROM: Department of Personnel Administration
Policy and Operations Division

SUBJECT: Tax Withholding/Reporting Requirements – Fringe Benefits/Employee
Business Expenses

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Each State department's management is responsible for compliance with tax withholding and reporting requirements when paying fringe benefits and employee business expenses (FB/EBE). Reporting and withholding requirements and procedures for FB/EBE are covered in the State Controller's Payroll Procedures Manual (PPM), Section N. This manual is online at www.sco.ca.gov, using the path: California Government, State Employees, State Department/Campus Reference Data, Payroll Procedures Manual, Section N, Items 120 through 176.

FB/EBE include, but are not limited to, awards, aircraft reimbursement, bicycle mileage, call-back mileage, commute mileage, personal use of State vehicles, remote headquarters mileage, standard mileage allowance, electronic devices, value of State-owned housing, meals and lodging on long-term travel, moving expense mileage, meals and lodging per diem (i.e., meals for less than 24 hours of travel and medical officer of the day), moving expenses, relocation expenses, overtime meal compensation, tool allowances, transportation subsidies, and uniform allowances.

A full list of FB/EBE can be found in the PPM Section 120. If these allowances/reimbursements are paid through the payroll or the

CalATERS system, tax reporting/withholding is done automatically. However, if paid through the manual claim process, reporting is also a manual process directly to the State Controller's Office and is subject to mandatory time frames and procedures as specified in the PPM. **Tax reporting is not optional for departments and is not discretionary in process or time frame.**

Through the March 2004 California State Auditor's Report and reporting summaries from the State Controller's Office, it has come to the Department of Personnel Administration's (DPA) attention that some departments have stopped reporting certain allowances or reimbursements, or have opted not to report certain taxable benefits.

It is critical that each department review its taxable/reportable allowances and reimbursements to assure that full compliance with the reporting requirements are met. Failure to report and withhold when mandated by tax law causes both the departments and the State to be out of compliance. This leaves the department, the employees, and the State vulnerable to Franchise Tax Board and Internal Revenue Service audits and various compliance remedies. Remedies include, but are not limited to, tax assessments, interest, and penalties.

DPA, as the system-wide employer, wants to ensure that the employee benefit and business expense plans it sponsors are being properly administered by local employers (departments) consistent with the applicable tax reporting requirements.

Bob Painter, Chief
Policy and Operations Division