State of Louisiana
DIVISION OF ADMINISTRATION

OFFICE OF STATEWIDE REPORTING AND ACCOUNTING POLICY

M. J. AMIKE@ FOSTER, JR.
GOVERNOR

MARK C. DRENNEN
COMMISSIONER OF ADMINISTRATION

February 3, 2003

MEMORANDUM OSRAP 03-23

TO: All Departments, Agencies, and Organizational Units within the State of Louisiana

FROM: F. Howard Karlton, CPA, CGFM
Director

RE: Policy and Procedure Memorandum 73 – Taxable Compensation

The annual report for your agency's taxable and nontaxable compensation for calendar year 2002, in compliance with Policy and Procedure Memorandum (PPM) 73, is due by February 1, 2003. If you have not yet responded, please do so no later than close of business Friday, February 14, 2003. After this date, a list of the entities failing to comply with PPM 73, issued by the Office of the Governor, Division of Administration will be prepared and be available to the auditors for compliance audits.

PPM 73 has two reporting requirements:

1. A plan which delineates the conditions under which an employee may receive any compensation other than salary, wages, per diem for board members, and benefits provided by the State Employees Group Benefits Program and various retirement systems, ***and***
2. All fringe benefits paid, taxable or nontaxable, including
   - the *specific* employee receiving the compensation,
   - the method used to value the compensation,
   - the actual value of the compensation, and
   - reason(s) the compensation is fully or partially nontaxable to the employee.

Please do not report the taxable or nontaxable fringe benefits paid to employees within the plan itself. Instead, report it in reporting requirement number 2 above. Examples of taxable and nontaxable fringe benefits paid to employees are:

- housing or housing allowance,
- meals or food allowance,
- personal use of a state vehicle or vehicle allowance,
- uniforms and/or
- uniform cleaning allowance, and
- parking.

If other types of fringe benefits are paid but not included in the above examples, they must be reported. You should include a comment indicating whether the amounts are taxable or

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nontaxable and if applicable taxes have been withheld. An example would be "These amounts are added to employees' gross income and applicable taxes are withheld from their biweekly payroll checks."

Should your agency provide no forms of taxable or nontaxable fringe benefits, your reply should contain such a statement.

Agencies providing personal use of a state vehicle *to control employees* may not use the commuting valuation rule as the valuation method. A control employee of a government is any elected official, any state or local executive officer appointed by the Governor and confirmed by the Senate, or any employee whose compensation is $150,000 or more. Alternative valuation methods such as the annual lease value method or the cents-per-mile valuation method are available in the Internal Revenue Code and Regulations. These alternative valuation methods may only be used with prior permission of this office.

To standardize reporting for meeting the second reporting requirement delineated above, the format below **must be used by all entities:**

Employee Name	Type of Compensation	Valuation Method	Value to Employee	2001 Fringe Benefit	Taxable/ Nontaxable	Comments
Doe, John	Personal use of a state vehicle	Daily Commute	$3.00/day	$750/year	Taxable	Added to gross income; applicable taxes are withheld biweekly
Jones, Sally	Police Officer Uniform	Cost	$84.00/ uniform	$168/year	Nontaxable	Uniform is required as a condition of employment

Again, if you have not yet submitted your response, please do so no later than the close of business on February 14, 2003

The text of PPM 73 is available as an attachment to memorandum 03-23 on OSRAP's web site at http://www.doa.state.la.us/OSRAP/OSRAP03.htm.

Should you have any questions regarding PPM 73 requirements, contact Ms. Inga Kimbrough at (225) 342-5509 or Ms. Sue Seab at (225) 342-1088.

FHK/SS/rl

Attachment

Policy & Procedure Memoranda
PPM 73
as amended

Chapter 41. Taxable Compensation – PPM No. 73

§ 4101. Purpose and Scope

A. The purpose of this memorandum is to establish a policy for the reporting of all taxable compensation provided to employees, withholding of applicable amounts to meet the employee's tax liability associated with the taxable compensation, to provide guidelines for establishing a value for taxable compensation and to provide guidelines for inclusion or exclusion of fringe benefits as taxable compensation.

B. All boards, commissions, departments, agencies, institutions and offices of the executive branch of state government shall comply with this memorandum.

§ 4103. Definitions

For purposes of this memorandum the following definitions shall apply.

Compensation – includes wages, salaries, bonuses, tips, commissions, fringe benefits, termination or severance pay, commission per diem and any and all similar items.

Fair Market Value (FMV) – that amount of compensation that would be paid between unrelated third parties to obtain a service or benefit

Fringe Benefits – meals, lodging, allowances, vehicle personal usage, moving expenses, etc.

In-kind – non-cash compensation, may include meals, lodging, vehicle personal use, moving expenses, etc.

Reimbursed Expenses – items of expenditure incurred by an employee in the performance of his job.

Tax Liability – includes federal and state tax withholding, FICA and Medicaid withholding and any penalty or interest payment due as a result of noncompliance

Taxable Compensation – all compensation items not excludable as income under a specific IRS Code Section

§ 4105. Policy

A. It shall be the policy of the state of Louisiana to report all taxable compensation and withhold all applicable taxes for such compensation as required by the Internal Revenue Code on each scheduled pay period.

B. Effective July 1, 1989 for calendar year 1989 and for each calendar year thereafter, all taxable compensation shall be reported and a withhold of applicable taxes shall be processed each pay period. For the period of January 1, 1989 through June 30, 1989 all taxable compensation not reported on a pay period basis shall be included on the employee's Form W-2 Wage and Tax Statement for calendar year 1989.

C. Applicable taxes for taxable compensation received in the form of cash during the period of January 1, 1989 through June 30, 1989 must be withheld during calendar year 1989.

D. Values for state owned housing taxable to the employee should be based on the values provided by the Office of Statewide Reporting and Accounting Policy. Agencies must also include the value of utilities, such as electricity, gas, water and sewerage, as these costs are not in the values provided by the Office of Statewide Reporting and Accounting Policy.

§ 4107. Reporting Requirements

A. Each board, commission, department, agency, institution or office must develop a plan each fiscal year delineating those conditions under which an employee shall receive any compensation other than salary, wages, per diem for board members and those benefits provided by the State Employees' Group Benefits Program and the various retirement systems. The plan must include the specific employee receiving the compensation, the valuation method of the compensation, the value of the compensation, and any reason the compensation is partially or fully nontaxable to the employee. Such plan shall be submitted for approval to the commissioner of administration by February 1,each September calendar year for the immediately preceding calendar year.

B. Department heads who fail to adequately value, report, or withhold applicable taxes for compensation provided employees shall be responsible for payment of any tax liability from the avails of the respective budget units' appropriations.

§ 4109. Reimbursed Expenses

Payments to employees in accordance with General Travel Regulations – PPM No. 49 for reimbursement of actual business travel expenses shall be treated as a non-compensation item.

§ 4111. Employment Contracts

For purpose of computing taxable compensation, the provisions of an employment contract, or state law fixing the terms of employment cannot be considered in determining of fringe benefits are intended as compensation.

§ 4113. Valuation Method

The general valuation rule will be FMV. Taxable cash compensation items, regardless of source, are to be reported and withheld at the dollar value paid. Taxable in-kind non-cash compensation, including fringe benefits, are to be included at FMV of the property transferred, excluding any payment offsets at the time of the transfer, unless excluded or adjusted under a specific Internal Revenue Code Section. There is no taxable compensation if the employee pays 100% of the FMV of the benefit.

§ 4115. Evaluation Tests for Exclusion from Taxable Compensation

The general rules of evaluation to be used in determining if and when a fringe benefit is exempt from inclusion as taxable compensation are as follows:

1. Meals

a. The value of meals furnished to an employee by and on behalf of the state, will be excludable from the employee's gross compensation if two tests are met:

i. The meals are furnished on the premises of the employer, and

ii. The meals are furnished for the convenience of the employer.

b. Meals furnished by the state without charge will be considered furnished for the convenience of the employer if the meals are furnished *for substantial non-compensatory business reasons* of the state rather than as a means of providing additional compensation to the employee.

c. On the premises will be interpreted to mean either:

i. Quarters that constitute an integral part of the business property, or

ii. Premises on which the entity carries on some of its business activities.

2. Lodging

a. The value of lodging furnished to an employee by or on behalf of the state will be excluded from the employee's gross income, if three tests are met:

i. The lodging is furnished on the business premises of the employer,

ii. The lodging is furnished for the convenience of the employer, and

iii. The employee is required to accept such lodging as a condition of his employment. The third requirement means that the employee must be required to accept the lodging on the business premises in order to enable him to properly perform the duties of his employment, which in turn will mean that the lodging is furnished because the employee is required to be available for duty at all times or because the employee could not perform the services required of him unless he was furnished such lodging.

b. On the business premises will be interpreted to mean either:

i. Living quarters that constitute an integral part of the business property, or

ii. Premises on which the entity carries on some of its business activities.

c. Ownership or control by the state of the premises furnished in not a test criteria.

d. Lodging includes utilities and associated related items such as lawn maintenance, maid service, etc. The value of utilities, etc. is furnished to the employee for the convenience of the state is excludable unless the employee contracts directly with the utility, etc. for the service.

3. Transportation

a. The value of personal use of a state vehicle must be included as taxable compensation.

b. The value for use of a state vehicle for commuting purposes shall be a flat $1.50 per one way commute trip ($3 per day for a round trip) if the following conditions are met:

i. The vehicle is owned or leased by the state and is provided for and used for state business;

ii. For bona fide non-compensatory business reasons, the state requires the employee to commute to and from work in the vehicle;

iii. The department, agency, etc. has a written policy which disallows personal use of the vehicle by the employee, or any individual whose use would be taxable to the employee, except for de minimus personal use such as a lunch stop between meetings;

iv. Neither the employee nor any individual whose use would be taxable to the employee uses the vehicle for any personal purposes other than commuting and de minimus personal use; and

v. The employee using the vehicle is not a control employee as defined in Temporary Regulation §1.61-2T(f)(5), (6).

c. For valuation of personal use of a vehicle for those employees who use a state vehicle to commute, but do not meet the conditions enumerated above and those employees who have personal use of other modes of transportation , alternative valuation methods are available in the Internal Revenue Code and Regulations.

d. The alternative valuation method, including the cents-per-mile rule or lease valuation method may be utilized only upon prior approval of the commissioner of administration.

§ 4117. Parking – Taxable Benefits

A. The Energy Policy Act of 1992 amended the Internal Revenue Code provisions on taxing employer provided transportation benefits. Under these provisions, employer provided parking in a public parking facility valued up to $175 per month may be excluded from taxable income. Any amounts of $175 or higher must be included in taxable income, unless the employee pays amounts in excess of the $175 per month and are to be included in taxable income.

B. The value of the parking cost is to be based on the cost an employee would incur in an arm's-length transaction to obtain parking at the same site. If this cannot be determined, value should be based on the cost incurred in an arm's-length transaction to obtain other space in the same lot or a comparable lot in the same general area.

HISTORICAL NOTE: Promulgated by Office of the Governor, Division of Administration. LR 15:528 (July 1989), repromulgated LR 20:374 (April 1994), amended LR 25:1406 (August 1999).