

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

Type of Fringe Benefit	Treatment Under Employment Taxes		
	Income Tax Withholding	Social Security and Medicare	Federal Unemployment (FUTA)
Accident and health benefits	Exempt <sup>1,2</sup> , except for certain long-term care benefits	Exempt, except for certain payments to S corporation employees who are 2% shareholders.	Exempt
Achievement awards	Exempt <sup>1</sup> up to \$1,600 (\$400 for nonqualified awards).		
Adoption assistance	Exempt <sup>1</sup>	Taxable	Taxable
Athletic facilities	Exempt if substantially all use during the calendar year is by employees, their spouses, and their dependent children.		
De minimis (minimal) benefits	Exempt	Exempt	Exempt
Dependent care assistance	Exempt <sup>3</sup> 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 <b>Educational Assistance</b> on page 7.)		
Employee discounts	Exempt <sup>4</sup> up to certain limits. (See <b>Employee Discounts</b> on page 8.)		
Employee stock options	See <b>Employee Stock Options</b> on page 8.		
Group-term life insurance coverage	Exempt	Exempt <sup>1,5</sup> up to cost of \$50,000 of coverage. (Special rules apply to former employees.)	Exempt
Lodging on your business premises	Exempt <sup>1</sup> if furnished for your convenience as a condition of employment.		
Meals	Exempt if furnished on your business premises for your convenience.		
	Exempt if de minimis.		
Moving expense reimbursements	Exempt <sup>1</sup> if expenses would be deductible if the employee had paid them.		
No-additional cost services	Exempt <sup>4</sup>	Exempt <sup>4</sup>	Exempt <sup>4</sup>
Transportation (commuting) benefits	Exempt <sup>1</sup> up to certain limits if for rides in a commuter highway vehicle (\$100), transit passes (\$100), or qualified parking (\$195). (See <b>Transportation (Commuting Benefits)</b> on page 14.)		
	Exempt if de minimis.		
Tuition reduction	Exempt <sup>4</sup> if for undergraduate education (or graduate education if the employee performs teaching or research activities).		
Working condition benefits	Exempt	Exempt	Exempt

<sup>1</sup> Exemption does not apply to S corporation employees who are 2% shareholders. See page 3.  
<sup>2</sup> Exemption does not apply to certain highly compensated employees under a self-insured plan that favors those employees.  
<sup>3</sup> Exemption does not apply to certain highly compensated employees under a program that favors those employees.  
<sup>4</sup> Exemption does not apply to certain highly compensated employees.  
<sup>5</sup> Exemption does not apply to certain key employees under a plan that favors those employees.

## Accident and Health Benefits

This exclusion applies to contributions you make to an accident or health plan for an employee, including the following:

- Contributions to the cost of accident or health insurance.
- Contributions to a separate trust or fund that provides accident or health benefits directly or through insurance.

- Contributions to Archer MSAs (discussed in **Publication 969**, Medical Savings Accounts (MSAs)).

This exclusion also applies to payments you make (directly or indirectly) to an employee under an accident or health plan for employees that are either of the following:

- Payments or reimbursements of medical expenses.
- Payments for specific injuries or illnesses (such as the loss of the use of an arm or leg). The payments

must be figured without regard to any period of absence from work.

**Accident or health plan.** This is an arrangement that provides benefits for your employees, their spouses, and their dependents in the event of personal injury or sickness. The plan may be insured or noninsured and does not need to be in writing.

**Employee.** For this exclusion, treat the following individuals as employees.

- A current common-law employee.
- A full-time life insurance agent who is a current statutory employee.
- A retired employee.
- A former employee you maintain coverage for based on the employment relationship.
- A widow or widower of an individual who died while an employee.
- A widow or widower of a retired employee.
- For the exclusion of contributions to an accident or health plan, a leased employee who has provided services to you on a substantially full-time basis for at least a year if the services are performed under your primary direction or control.

**Exception for S corporation shareholders.** Do not treat a 2% shareholder of an S corporation as an employee of the corporation for this purpose. A 2% shareholder is someone who directly or indirectly owns (at any time during the year) more than 2% of the corporation's stock or stock with more than 2% of the voting power.

**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 cannot 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 5 times the total cost of the insurance. However, you can exclude these contributions from the employee's wages subject to social security, Medicare, and Federal unemployment (FUTA) taxes.

**S corporation shareholders.** Because you cannot 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 the employee's wages subject to Federal income tax withholding. However, you can exclude the value of these benefits (other than payments for specific injuries or illnesses) from the employee's wages subject to social security, Medicare, and FUTA taxes.

**Exception for highly compensated employees.** If your plan is a self-insured medical reimbursement plan that favors highly compensated employees, you must in-

clude all or part of the amounts you pay to these employees in their wages subject to Federal income tax withholding. However, you can exclude these amounts (other than payments for specific injuries or illnesses) from the employee's wages subject to social security, Medicare, and FUTA taxes.

A self-insured plan is a plan that reimburses your employees for medical expenses not covered by an accident or health insurance policy.

A highly compensated employee for this exception is any of the following individuals.

- One of the five highest paid officers.
- An employee who owns (directly or indirectly) more than 10% in value of the employer's stock.
- An employee who is among the highest paid 25% of all employees (other than those who can be excluded from the plan).

For more information on this exception, see section 105(h) of the Internal Revenue Code and its regulations.

**COBRA premiums.** The exclusion for accident and health benefits applies to amounts you pay to maintain medical coverage for a former employee under the Combined Omnibus Budget Reconciliation Act of 1986 (COBRA). The exclusion applies regardless of the length of employment, whether you pay the premiums directly or reimburse the former employee for premiums paid, and whether the employee's separation is permanent or temporary.

## Achievement Awards

This exclusion applies to the value of any tangible personal property you give to an employee as an award for either **length of service** or **safety achievement**. The exclusion does not apply to awards of cash, cash equivalents, gift certificates, or other intangible property such as vacations, meals, lodging, tickets to theater or sporting events, stocks, bonds, and other securities. The award must meet the requirements for employee achievement awards discussed in chapter 2 of **Publication 535**, Business Expenses.

**Employee.** For this exclusion, treat the following individuals as employees.

- A current employee.
- A former common-law employee you maintain coverage for in consideration of or based on an agreement relating to prior service as an employee.
- A leased employee who has provided services to you on a substantially full-time basis for at least a year if the services are performed under your primary direction or control.

**Exception for S corporation shareholders.** Do not treat a 2% shareholder of an S corporation as an employee of the corporation. A 2% shareholder is someone who directly or indirectly owns (at any time during the year) more than 2% of the corporation's stock or stock with more than 2% of the voting power.