



State of Arizona Accounting Manual

Topic 55 Payroll and Personnel
Section 56 **Reporting of Taxable Fringe Benefits
Including Awards and Prizes**

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INTRODUCTION

The State of Arizona provides several fringe benefits to employees. While some of the fringe benefits are provided on a statewide basis (such as insurance and the various retirement plans), others are provided to specific employees directly by their respective agencies. Fringe benefits are a form of pay (including property, services, cash or cash equivalent) in addition to salary for the performance of services. These benefits include items such as educational assistance, transportation benefits, uniform or tools allowances, awards, prizes, etc.

Unless expressly and specifically excluded or deferred until a later year under the Internal Revenue Code (IRC), all taxable fringe benefits should be included in the employee's gross income in the year in which they are received.

SAAM 5555 discusses the taxability of some of the more frequently encountered fringe benefits; neither that section of SAAM nor this deals with retirement and insurance.

This policy is to provide guidance that informs agencies of how to report taxable fringe benefits to help ensure compliance with Federal and State tax laws by appropriately notifying their respective payroll offices.

POLICIES

1. An agency that provides, distributes or pays a fringe benefit to an employee must consult SAAM 5555 to ascertain the proper tax treatment of the fringe benefit.
 - 1.1. Generally, fringe benefits are taxable.
 - 1.2. If an agency determines that a fringe benefit is not taxable, it must collect and retain (in accordance with the record retention directives published by LAPR) appropriate documentation supporting the fringe benefit's exclusion from taxation.
 - 1.3. If an agency requires assistance in making the determination whether a fringe benefit is taxable, it should contact GAO Central Payroll.
2. The amount at which taxable fringe benefits are generally valued is their fair market value.
3. Taxable fringe benefits should be reported to the agency's payroll office using Form GAO-86, "Reportable Fringe Benefits, Awards and Prizes."

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- 3.1. Appropriate documentation supporting the taxable value to be included in the employee's income must accompany the Form GAO-86.
- 3.2. Federal and State income and payroll taxes will be withheld and paid upon the taxable value reported on the Form GAO-86.
- 3.3. Fringe benefits may be counted as eligible compensation for the purpose of calculating retirement benefits or insurance.
- 3.4. The Form GAO-86 is to be completed by the management of the unit responsible for making the award to the employee.
- 3.5. The completed Form GAO-86 is to be delivered to the agency's payroll office within ten (10) business days of the award's having been made.
- 3.6. Central payroll can assist agencies in determining the taxable amount of any fringe benefit so as to ensure consistent statewide valuation and compliance with IRS regulations.
4. It is intended that this policy conform to the applicable provisions of the Internal Revenue Code. IRS *Publication 5137, Fringe Benefit Guide for Federal, State and Local Governments*, should be consulted for additional guidance.
5. Nothing in this policy shall be construed to confer eligibility for benefits for which an employee is not otherwise eligible under Federal or State law, rule, regulation or policy.