

# 22 Employee Benefits

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## ■ New for 2025 ■

- **Nondiscrimination rules.** The limits for identifying key employees and highly-compensated employees have increased. See the *Nondiscrimination Rules* chart, page 22-2.
- **Health savings accounts (HSAs).** HSA contribution limits and deductible limits have increased. See the *HSA Limitations* chart, below.

### HSA Limitations (page 22-6)

<b>Annual contribution is limited to:</b>	<b>2025</b>	<b>2024</b>	<b>2023</b>
Self-only coverage, under age 55 . . . . .	\$4,300	\$4,150	\$3,850
Self-only coverage, age 55 or older . . . . .	\$5,300	\$5,150	\$4,850
Family coverage, under age 55* . . . . .	\$8,550	\$8,300	\$7,750
Family coverage, age 55 or older* . . . . .	\$9,550	\$9,300	\$8,750
<b>Minimum annual deductible:</b>			
Self-only coverage . . . . .	\$1,650	\$1,600	\$1,500
Family coverage . . . . .	\$3,300	\$3,200	\$3,000
<b>Maximum annual deductible and out-of-pocket expense limit:</b>			
Self-only coverage . . . . .	\$8,300	\$8,050	\$7,500
Family coverage . . . . .	\$16,600	\$16,100	\$15,000

\* Assumes only one spouse has an HSA.

**Note:** For tax years 2021–2026 limits, see *Health Care*, page 1-5.

### Group Term Life Insurance (page 22-5)

Cost per \$1,000 of Protection per Month

<b>Age</b>	<b>Cost</b>	<b>Age</b>	<b>Cost</b>
Under 25 . . . . .	\$0.05	50 through 54 . . . . .	\$0.23
25 through 29 . . . . .	0.06	55 through 59 . . . . .	0.43
30 through 34 . . . . .	0.08	60 through 64 . . . . .	0.66
35 through 39 . . . . .	0.09	65 through 69 . . . . .	1.27
40 through 44 . . . . .	0.10	70 and older . . . . .	2.06
45 through 49 . . . . .	0.15		

### Transportation Benefits Monthly Income Exclusion

	<b>2025</b>	<b>2024</b>	<b>2023</b>
Combined commuter highway vehicle and transit passes . . . . .	\$325	\$315	\$300
Qualified parking . . . . .	\$325	\$315	\$300

**Note:** For tax years 2021–2026 exclusion amounts, see *Business*, page 1-3.

### Who Qualifies as an Employee? (page 22-2)

	No-additional cost services	Working condition discounts	Employee discounts	De minimis fringe benefit	On-premises athletic facilities	Moving expense reimbursements	Transportation benefits	Undergraduate tuition reduction	Educational assistance program	Dependent care assistance	Meals and lodging on business premises	Employee achievement awards	Accident and health benefit plans	Group-term life insurance	Cafeteria plans		
Current common-law employee	X	X	X	X	X	X	X	X <sup>1</sup>	X	X	X	X	X	X <sup>2</sup>	X	X	X
Statutory employee (life insurance agent)				X											X	X	X
Certain leased employees	X	X		X	X	X					X	X	X		X	X	X
Former employee					X							X <sup>3</sup>	X		X	X	
Retired or disabled former employee	X	X		X	X					X		X			X	X	
Widow(er) of retired or deceased active employee	X	X		X	X					X		X			X		
Director of the company				X	X												
Partner of a partnership	X	X	X	X	X						X	X					
2% S corporation shareholder	X	X	X	X	X						X	X					
Sole proprietor					X						X	X					
Independent contractor who performs services for an employer				X	X												

<sup>1</sup> For members of the Armed Forces on active duty only.

<sup>2</sup> Tax-free if for the employer's convenience and for lodging, as a condition of employment. Any recipient of a de minimis meal is treated as an employee.

<sup>3</sup> If laid off.

# Employee Fringe Benefits

## Cross References

- IRS Pub. 15-B, *Employer's Tax Guide to Fringe Benefits*
- IRS Pub. 969, *Health Savings Accounts and Other Tax-Favored Health Plans*

## Related Topics

- Employee Stock Options, Tab 6
- Per Diem Rates, page 8-2
- Accountable/Nonaccountable Plans, page 8-11
- Adoption Expenses, page 11-3
- Flexible Spending Arrangement (FSA), page 30-5
- Credit for Employer-Provided Childcare Facilities and Services, Tab 31

## Tax Treatment of Fringe Benefits

**Author's Comment:** As used in this publication, the term "employee fringe benefit" means any benefit provided to an employee that is in addition to money. All benefits provided to an employee, including money, are taxable, unless the law specifically excludes from income or defers tax on the benefit. The personal use of an employer-provided vehicle is an example of a taxable fringe benefit. An employer contribution to a qualified retirement plan on behalf of the employee is an example of a tax-deferred fringe benefit. Employer-provided health insurance for an employee is an example of an excluded fringe benefit.

**Planning Tip:** A small business owner in a corporate setting may be both the owner and an employee of his or her business. By taking advantage of excludable fringe benefits, the owner receives a double benefit. First, the cost of the benefit is deductible by the business. Second, the cost of the benefit is tax free to the employee-owner.

**Example:** Sandy owns a tax preparation firm that is organized as an S corporation. The firm purchases professional tax software and computer equipment for use in preparing client tax returns. As a de minimis fringe benefit, the firm has a policy that allows employees to use company assets to prepare their own personal income tax returns. The value of the software and computer equipment for such minimal personal use is excluded from Sandy's income as an employee of her firm. In addition, the firm is allowed a full deduction for the cost of the software and computer equipment.

**Taxable portion of a fringe benefit.** The value of a fringe benefit that is included in the employee's taxable compensation is determined by subtracting from the total value the amount that is excludable under the law and any amount the employee paid for use of the benefit.

**Paying the employee's share of Social Security and Medicare taxes.** Employers that choose to pay the employee's Social Security and Medicare taxes on taxable fringe benefits without deducting them from the employee's pay must include the amount of the payments in the employee's income. To compute the amount of reportable wages, see *Gross-Up Computation*, page 23-9.

## Employees for Tax-Favored Fringe Benefit Purposes

Fringe benefits are typically only offered to common-law employees. Independent contractors generally work strictly for money. However, the law does allow for tax-favored treatment to apply to non-employees in certain cases. Sometimes the benefit is provided to a family member of the employee. In such a case, the benefit

is considered to have been provided to the employee. See *Who Qualifies as an Employee?* chart, page 22-1.

**Shareholders and partners.** Employee-shareholders of C corporations generally can take advantage of tax-free fringe benefits offered to all common law employees. Partners of partnerships are not common law employees and generally cannot exclude fringe benefits from income. For purposes of employee fringe benefits, an S corporation is treated as a partnership, and a more than 2% shareholder of an S corporation is treated as a partner (IRC §1372). A more than 2% shareholder of an S corporation also includes members of the shareholder's family, including a spouse, child, grandchild, and parent. (IRC §318)

**Revenue Ruling 91-26.** Under Rev. Rul. 91-26, medical benefits paid by a partnership or S corporation are reported to partners and S corporation shareholders as follows.

- A partner performing services for a partnership treats medical benefits as guaranteed payments. Report guaranteed payments with medical benefits in box 4a, Schedule K-1 (Form 1065). Also enter medical insurance benefits in box 13, Schedule K-1 (Form 1065), using code M.
- A more than 2% shareholder of an S corporation performing services as an employee treats medical benefits as taxable wages. Report in box 1, Form W-2. Also identify in box 14, Form W-2. However, if the requirements for exclusion of certain medical benefits under IRC section 3121(a)(2)(B) are satisfied, the taxable portion is not subject to FICA withholding or FUTA. These same rules apply to HSA contributions contributed by the S corporation for the more than 2% shareholder. (Notice 2005-8)

## Nondiscrimination Rules for Fringe Benefits

The nondiscrimination rules are designed to prevent business owners from offering tax-favored fringe benefits to themselves but not their employees. In general, if employee fringe benefits are offered to all employees, then all employees, including the top paid employees, receive tax-favored treatment on employee benefits. However, if a plan favors highly-compensated employees or key employees, the value of the benefit must be included in their taxable wages. The terms highly-compensated employees and key employees are defined differently depending on the applicable plan.

### Nondiscrimination Rules

Cafeteria Plans	<p><b>Highly-compensated employees:</b></p> <ul style="list-style-type: none"> <li>• Officer of corporation</li> <li>• More than 5% shareholder</li> <li>• Highly-compensated employee based on facts and circumstances</li> <li>• Spouse or dependent of above</li> </ul>						
	<p><sup>1</sup><b>Key employees:</b></p> <ul style="list-style-type: none"> <li>• Officer having annual pay of more than: <table border="1" data-bbox="1104 1512 1429 1585"> <tr> <td>2025</td> <td>2024</td> <td>2023</td> </tr> <tr> <td>\$230,000</td> <td>\$220,000</td> <td>\$215,000</td> </tr> </table> </li> <li>• 5% owner-employee</li> <li>• 1% owner-employee with annual pay more than \$150,000</li> </ul>	2025	2024	2023	\$230,000	\$220,000	\$215,000
2025	2024	2023					
\$230,000	\$220,000	\$215,000					
Self-Insured Medical Reimbursement Plans	<p><b>Highly-compensated employees:</b></p> <ul style="list-style-type: none"> <li>• One of five highest paid officers</li> <li>• Employee owning more than 10% of employer's stock</li> <li>• Highest paid 25% of all employees</li> </ul>						

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Nondiscrimination Rules continued									
Adoption Assistance	<b>Highly-compensated employees:</b> • 5% owner-employee at any time during year or preceding year • Employee with compensation from the business for the preceding year of more than: – \$160,000 (if preceding year is 2025) – \$155,000 (if preceding year is 2024) – \$150,000 (if preceding year is 2023) This test can be ignored if employee was not also in top 20% of employees.								
Dependent Care Assistance									
Educational Assistance									
Employee Discounts									
Health Savings Accounts									
Meals Provided at Employer-Operated Eating Facilities									
No-Additional-Cost Service									
Group Term Life Insurance	<sup>2</sup> <b>Key employees:</b> • Officer having annual pay of more than: <table border="1" style="margin-left: 20px;"> <tr> <td></td> <td>2025</td> <td>2024</td> <td>2023</td> </tr> <tr> <td></td> <td>\$230,000</td> <td>\$220,000</td> <td>\$215,000</td> </tr> </table> • 5% owner-employee • 1% owner-employee with annual pay more than \$150,000		2025	2024	2023		\$230,000	\$220,000	\$215,000
	2025	2024	2023						
	\$230,000	\$220,000	\$215,000						

<sup>1</sup> Favors key employees if more than 25% of nontaxable benefits provided for all employees go to key employees.

<sup>2</sup> Does not favor key employees if the plan benefits at least 70% of employees, at least 85% of participating employees are not key employees, or it benefits employees who qualify under a set of rules that does not favor key employees.

## Achievement Awards [IRC §74(c)]

The value of tangible personal property (e.g., golf clubs, a watch, electronics, appliances) given to an employee as an award for either length of service or safety achievement is excluded from taxable wages. The exclusion does not apply to cash, gift cards, vacations, meals, lodging, tickets to theater or sporting events, stocks, bonds, and other similar items. The annual exclusion is limited to \$1,600 (\$400 for awards that are not qualified plan awards). An achievement award is qualified if given as part of an established written plan or program that does not favor highly compensated employees.

## Archer MSAs (IRC §220)

No new Archer MSA contributions may be made after 2007, except to existing accounts or as a new participant to an already existing employer MSA plan.

### Archer MSA Limitations

2025 annual deductibles	Self-only coverage	\$2,850 to \$4,300
	Family coverage	\$5,700 to \$8,550
2025 annual out-of-pocket expense limits	Self-only coverage	\$5,700
	Family coverage	\$10,500
Maximum contribution all years	Self-only coverage	65% of deductible
	Family coverage	75% of deductible

## Athletic Facilities [IRC §132(j)(4)]

The value of an employee's use of an employer's on-premises gym or other athletic facility is excluded from taxable wages. The athletic facility must be located on premises owned or leased by the employer and must be operated by the employer. However, the exclusion does not apply to an athletic facility for residential use, such as athletic facilities that are part of a resort.

## Cafeteria Plans (IRC §125)

A cafeteria plan, including a flexible spending arrangement (FSA), is a written plan that allows employees to choose between receiving taxable compensation or a qualified benefit for which the law provides an exclusion from wages. If the employee chooses to receive qualified benefits, the benefit is excluded from income under the rules that are applicable to that specific benefit. A cafeteria plan generally cannot include a plan that

provides for deferred compensation, with the exception of 401(k) contributions.

### Types of benefits that can be offered through a cafeteria plan:

- 401(k) pension plans.
- Accident and health benefits.
- Accidental death and dismemberment insurance.
- Adoption assistance.
- Contributions to HSAs.
- Dependent care assistance.
- Group-term life insurance coverage, including excess coverage costs that cannot be excluded from wages.
- Long- or short-term disability insurance.
- Premiums for COBRA continuation coverage.

### Benefits that cannot be offered through a cafeteria plan:

- 403(b) pension plans.
- Archer medical savings accounts (MSAs).
- Educational assistance.
- Employee discounts.
- Employer-provided cell phones.
- Lodging on employer's premises.
- Meals.
- No-additional-cost services.
- Scholarships.
- Transportation (commuting) benefits.
- Tuition reduction.
- Working condition benefits.

**Simple cafeteria plans.** Simple cafeteria plans can be established by employers with an average of 100 or fewer employees during either of the last two preceding years. Participation and contribution requirements must also be met. Simple cafeteria plans are treated as meeting the nondiscrimination requirements of a cafeteria plan. See *Nondiscrimination Rules for Fringe Benefits*, page 22-2.

**Flexible spending arrangements (FSAs).** A flexible spending arrangement allows employees to exclude amounts from gross income to fund dependent care assistance, adoption assistance, and medical care reimbursement plans. The benefits are subject to annual maximums and a "use-it-or-lose-it" rule. An FSA cannot provide a cumulative benefit to the employee beyond the plan year. See *Grace period* and *Carryover*, below.

**Health FSA limits.** The maximum amount an employee can set aside in 2025 for a health FSA is \$3,300. Unused contributions carried over from a previous plan year do not count against this limit.

**Grace period.** An FSA can provide for a grace period of up to 2½ months after the end of the plan year. Any qualified medical expenses incurred in that period can be paid from amounts left in the account at the end of the previous year. Under the grace period, an employee essentially has until the 15th day of the third month following the end of the plan year to use benefits remaining in the account.

**Carryover.** An FSA that does not provide for a grace period may allow up to \$660 (2025) of unused amounts remaining at the end of the plan year to be paid or reimbursed for qualified medical expenses incurred in the following plan year. Any unused amounts in excess of the carryover amount are forfeited. (Notice 2013-71)

## De Minimis Benefits [IRC §132(e)]

The value of de minimis (minimal) benefits provided to employees are excluded from taxable wages. A de minimis benefit is any property or service provided that has so little value that accounting for it would be unreasonable or administratively impractical. For this purpose, the frequency of providing similar benefits to employees is taken into account. Cash (including gift cards) is never excludable, except for occasional meal money or transportation fare due to overtime work. Examples of de minimis benefits include the following.

- Occasional personal use of a company copy machine if at least 85% of its use is for business.
- Holiday gifts, other than cash, with a low FMV.
- Group term life insurance payable on the death of an employee's spouse or dependent if the face amount is not more than \$2,000.

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- Certain meals. See *De minimis meals*, page 22-8.
- Occasional parties or picnics for employees and their guests.
- Occasional tickets for theater or sporting events.
- Certain transportation fare. See *De minimis transportation benefits*, page 22-8.
- Personal use of an employer-provided cell phone, provided primarily for noncompensatory business reasons. See *Employer-Provided Cell Phone*, next column.

## Dependent Care Assistance (IRC §129)

The value of up to \$5,000 (\$2,500 MFS) of household and dependent care services directly or indirectly provided to employees under a dependent care assistance program is excluded from taxable wages. The requirements are basically the same as the tests the employee would have to meet to claim the Child and Dependent Care Credit if the employee paid for the service. See *Child and Dependent Care Expenses*, page 11-4.

**Shareholders or owners.** Benefits provided to more than 5% shareholders or owners (including benefits provided to spouses or dependents) cannot exceed 25% of the total amount paid by the employer for all employees for dependent care assistance. [IRC §129(d)(4)]

## Educational Assistance (IRC §127)

Up to \$5,250 of employer paid educational assistance provided to employees is excluded from taxable wages. Graduate level courses are included in this exclusion. Qualified expenses include the cost of books, equipment, fees, supplies, and tuition. The exclusion does not apply to the cost of education involving sports, games, or hobbies, unless the education has a reasonable relationship to the employer's business or is required as part of a degree program. Qualified expenses do not include the cost of tools or supplies (other than textbooks) that the employee is allowed to keep at the end of the course, nor do they include the cost of lodging, meals, or transportation.

Employers may also exclude payments of employee student loan interest and principal as educational assistance. The employer payment may be made to the employee or the lender. The loan must be one that is otherwise eligible for the deduction of student loan interest by the employee, however, the employee cannot deduct interest paid by the employer. See *Student Loan Interest Deduction*, Tab 12.

**Note:** If benefits exceed \$5,250, the cost of education may still be excludable. See *Working Condition Benefits [IRC §132(d)]*, page 22-8.

## Employee Discounts (IRC §132(c))

The value of a price reduction given to employees on property or services offered to customers in the ordinary course of the line of business in which the employee performs substantial services is excluded from taxable wages. The exclusion does not apply to discounts on real property or discounts on personal property of a kind commonly held for investment, such as stocks or bonds.

The exclusion is limited to discounts on:

- Services up to 20% of the price charged to customers.
- Merchandise or other property up to the price charged to customers multiplied by the gross profit percentage.

## Employee Stock Options (IRC §83(i))

Qualified employees who are awarded private company stock options in connection with services may elect to defer the recognition of income for up to five years for stock options exercised or restricted stock units (RSUs) settled. The corporation must have a written plan under which not less than 80% of all U.S. employees are granted options or RSUs with the same rights and privileges. The election applies for federal income tax purposes only and has

no effect on Social Security, Medicare, and federal unemployment taxes. The employee has 30 days from the date that vested qualified stock is transferred to make the election and must be notified by the employer of the election availability.

Qualified employees do not include 1% corporation owners, CEOs, CFOs, or family member of these individuals, and any of the four highest compensated officers. The employer must withhold federal income tax at 37% in the tax year the amount deferred is included in the employee's income. See *Election to defer income on stock options*, Tab 6.

## Employer-Provided Cell Phones

The value of an employer-provided cell phone, provided primarily for noncompensatory business reasons, is excludable from an employee's income as a working condition fringe benefit. See *Working Condition Benefits [IRC §132(d)]*, page 22-8.

Personal use of such cell phone is excludable as a de minimis fringe benefit. See *De Minimis Benefits [IRC §132(e)]*, page 22-3.

**Noncompensatory business purposes.** An employer needs substantial business reasons for providing the cell phone. Examples include the employer's:

- Need to contact the employee at all times for work-related emergencies,
- Requirement that the employee be available to speak with clients at times when the employee is away from the office, and
- Need to speak with clients located in other time zones at times outside the employee's normal workday.

The value of cell phones provided to promote goodwill, boost morale, or attract prospective employees cannot be excluded from an employee's wage.

## Employer-Provided Vehicles

If an employer provides an employee with a company-owned vehicle, and the employee uses the vehicle for personal purposes, then the value of that personal use must be included as taxable income on the employee's Form W-2. Under the general rule, the taxable amount equals the FMV of the total use, minus the amount the employee pays for the use, minus the amount excluded from income as a working condition fringe benefit. [Reg. §1.61-21(b)]

**Lease valuation rule.** Under this method, determine the FMV of the automobile on the first date it is available for use by the employee and apply the FMV to the *Annual Lease Value Table*, below. The annual lease values are based on a 4-year lease term. The total value each year is reduced by the value that is excluded from income under the working condition fringe benefit rules.

If the vehicle remains in service after four years, the annual lease value is recomputed. It is computed based on the FMV of the vehicle on January 1 of the year beginning the next 4-year period.

**Example:** The vehicle was originally placed in service on January 1, 2021. On January 1, 2025, it had a FMV of \$18,000. The annual lease value for the next four years is \$5,100. See *Annual Lease Value Table*, below.

**Annual Lease Value Table [Reg. §1.61-21(d)(2)(iii)]**

Automobile FMV	Annual Lease Value	Automobile FMV	Annual Lease Value
\$ 0 to 999.....	\$ 600	\$ 6,000 to 6,999.....	2,100
1,000 to 1,999.....	850	7,000 to 7,999.....	2,350
2,000 to 2,999.....	1,100	8,000 to 8,999.....	2,600
3,000 to 3,999.....	1,350	9,000 to 9,999.....	2,850
4,000 to 4,999.....	1,600	10,000 to 10,999.....	3,100
5,000 to 5,999.....	1,850	11,000 to 11,999.....	3,350

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Annual Lease Value Table continued

Automobile FMV	Annual Lease Value	Automobile FMV	Annual Lease Value
\$ 12,000 to 12,999	3,600	\$ 30,000 to 31,999	8,250
13,000 to 13,999	3,850	32,000 to 33,999	8,750
14,000 to 14,999	4,100	34,000 to 35,999	9,250
15,000 to 15,999	4,350	36,000 to 37,999	9,750
16,000 to 16,999	4,600	38,000 to 39,999	10,250
17,000 to 17,999	4,850	40,000 to 41,999	10,750
18,000 to 18,999	5,100	42,000 to 43,999	11,250
19,000 to 19,999	5,350	44,000 to 45,999	11,750
20,000 to 20,999	5,600	46,000 to 47,999	12,250
21,000 to 21,999	5,850	48,000 to 49,999	12,750
22,000 to 22,999	6,100	50,000 to 51,999	13,250
23,000 to 23,999	6,350	52,000 to 53,999	13,750
24,000 to 24,999	6,600	54,000 to 55,999	14,250
25,000 to 25,999	6,850	56,000 to 57,999	14,750
26,000 to 27,999	7,250	58,000 to 59,999	15,250
28,000 to 29,999	7,750		

For vehicles having a FMV in excess of \$59,999, the annual lease value is equal to 25% of the FMV of the automobile, plus \$500.

**Prorated annual lease value.** If the auto is used by the employee for 30 or more days, but less than an entire year, multiply the annual lease value by the number of days available during the year and then divide that amount by 365.

**Daily lease value.** If the auto is used less than 30 days during the year, multiply the annual lease value by four times the number of days used and then divide that amount by 365. Or, if it produces a lower result, use the prorated annual lease value method, above, with total days of use being equal to 30 days.

**Expenses included in lease value.** The annual lease value includes the FMV of maintenance and insurance. If the employer does not pay for maintenance or insurance, the annual lease value cannot be reduced. However, the cost of fuel is not included in the annual lease value. If the employer pays for fuel, it must be added to the annual lease value. For this purpose, fuel can be valued at 5.5¢ per mile for all miles driven by the employee. [Reg. §1.61-21(d)(3)]

**Cents-per-mile valuation rule.** The taxable personal use is determined by multiplying the employee's personal miles by the current standard mileage rate of 70.0¢ (2025).

The standard mileage rate includes the cost of fuel. If the employee pays for fuel, the cents-per-mile rate can be reduced by up to 5.5¢ per mile.

An employer can calculate the personal use value of a vehicle under the cents-per-mile method if all of the following are true.

- The employer reasonably expects the vehicle will be used on a regular basis in the employer's trade or business. Regular use is determined under all facts and circumstances. The vehicle is considered regularly used if at least 50% of the vehicle's total annual mileage is for business, or the vehicle is used each workday to transport at least three employees to and from work in an employer-sponsored commuting vehicle pool.
- The vehicle is driven at least 10,000 miles per year and the vehicle is primarily used by employees.
- The FMV of the vehicle at the time it is first made available to the employee for personal use does not exceed \$61,200 (2025).

**Consistency requirements.** If the cents-per-mile rule is used, the following requirements apply.

- The taxpayer must begin using the cents-per-mile rule on the first day the vehicle is made available to any employee for personal use. However, if the commuting rule is used when the vehicle is first made available to any employee for personal use, a change to the cents-per-mile rule is allowed on the first day the commuting rule is not used.

- The cents-per-mile rule must be used for all later years in which the vehicle is made available to any employee and the vehicle qualifies, except that the commuting rule can be used for any year during which use of the vehicle qualifies. However, if the vehicle does not qualify for the cents-per-mile rule during a later year, for that year and thereafter any other rule can be used for which the vehicle then qualifies.

- The cents-per-mile rule must continue to be used if a replacement vehicle is provided to the employee and the primary reason for the replacement is to reduce federal taxes.

**Commuting valuation rule.** The value of a vehicle used for commuting is determined by multiplying each one-way commute by \$1.50. This rule can be used if the following requirements are met.

- The vehicle is used in the employer's business by the employee and for bona fide noncompensatory business reasons, and the employer requires the employee to commute in the vehicle.
- There is a written policy that the employee cannot use the vehicle for personal use other than for commuting or de minimis personal use, and in fact the employee does not use it for personal use.
- If the vehicle is an automobile, the employee is not a control employee.

**Unsafe conditions.** The commuting valuation rule can also be used for certain employees if the employee would ordinarily walk or use public transportation for commuting, but it is unsafe to do so.

**Special purpose vehicles.** Certain vehicles are automatically considered a working condition fringe benefit, excludable from income even though the employee may occasionally use it for personal purposes. Examples of these types of vehicles include demonstrator cars used by auto salespersons and qualified nonpersonal-use vehicles. See *Qualified Nonpersonal-Use Vehicles*, Tab 10.

**Vehicle depreciation claimed by employer.** If the employer adds the personal use of a company-owned vehicle to the employee's Form W-2 as compensation, or if the employee reimburses the employer for personal use, the employer is allowed to claim depreciation as if the vehicle was used 100% for business. The depreciation deduction based on 100% business use is subject to the section 280F limitations for luxury vehicles.

**Example:** Jack is provided with a company vehicle by his employer. Jack uses the vehicle 75% for business and 25% for personal purposes. His employer calculates the value of the 25% personal use and adds that amount to box 1 of his Form W-2, subject to payroll taxes. The total value of the fringe benefit is also noted in box 14. Jack's employer does not deduct the amount added to his Form W-2 as compensation for services, but rather includes that amount in the deduction for auto expenses [Reg. §1.162-25T(a)]. The deduction for auto expenses is further limited by any applicable section 280F depreciation limitations on luxury automobiles. For the limitation amounts, see *Vehicle Depreciation Limitations (Section 280F)*, page 10-1.

## Group Term Life Insurance (IRC §79)

The cost of up to \$50,000 of group term life insurance coverage on an employee can be excluded from taxable wages. The benefit cannot be provided to an employee's spouse or dependents (except under the de minimis rules). The group term life insurance policy must be for at least 10 full-time employees at some time during the year. An exception to the 10-employee rule applies if all full-time employees are covered and the coverage is based on either a uniform percentage of pay or the insurer's coverage brackets that meet certain requirements. (Reg. §1.79-1)

To calculate the cost to include in taxable wages if more than \$50,000 of coverage is provided to an employee, use the *Group Term Life Insurance* table, page 22-1.

## Health Benefits (IRC §105 and IRC §106)

**Employer-provided health insurance (IRC §106).** The value of employer-paid health insurance provided to employees is excluded from employee taxable wages. This can include contributions to Archer MSAs, HSAs, and qualified small employer health reimbursement arrangements (QSEHRAs) and COBRA premiums paid by the employer. It does not include long-term care benefits provided through flexible spending arrangements.

**Reporting requirement.** Employers are required to report (for informational purposes only) the value of health insurance coverage provided to employees in box 12, Form W-2, using code DD. No reporting is currently required for any employer that filed fewer than 250 Forms W-2 in the preceding calendar year. (Notice 2012-9)

**Health reimbursement arrangements (HRAs) [IRC §105(b)].** Employer reimbursements to employees for medical expenses are excluded from employee taxable wages. Expenses that qualify for tax-free reimbursements are those that would otherwise qualify for a medical expense deduction and over-the-counter medicines. See *Health Reimbursement Arrangement (HRA)*, page 30-4.

**Written plan.** Self-insured medical reimbursement plans should be in writing [Reg. §1.105-11(b)(1)(i)]. Although they can be self-administered, a number of legal and liability issues make it advisable to seek professional help to set up a proper IRC section 105(b) health reimbursement plan for employees.

**Self-insured health plan annual fee.** Applicable self-insured health plans (including HRAs) are subject to an annual fee (Patient-Centered Outcomes Research Fee). The fee is reported and paid using Part II of Form 720, *Quarterly Federal Excise Tax Return*, and is due by July 31 of the calendar year immediately following the last day of the policy year. For more information, see the instructions for Form 720.

## Health Savings Accounts (HSAs) (IRC §223)

A health savings account (HSA) is a tax-exempt trust or custodial account set up with a qualified HSA trustee to pay or reimburse certain medical expenses incurred by an individual, his or her spouse, and qualified dependents. The medical expenses must not be reimbursable by insurance or other sources, and distributions from HSA funds will not give rise to a medical expense deduction on the individual's tax return.

A taxpayer can either make tax deductible contributions to the HSA, or an employer can make contributions to the HSA of an employee and exclude the benefit from taxable wages. Once the pre-tax dollars are in the account, they can be withdrawn tax free to pay for the qualified medical expenses that are not covered by insurance. Interest or other earnings on the account accumulate tax free. Like an IRA, the HSA is owned by the individual participant and stays with the participant even after a job change or retirement. The participant does not need to have wage earnings or self-employment earnings to make deductible contributions to an HSA.

**Qualifying for an HSA.** To be eligible, a participant must meet the following requirements.

- Must be covered under a high deductible health plan (HDHP).
- Cannot have any other health coverage. **Exception:** Coverage for specific things such as disability, dental care, vision care, and long-term care can be purchased in addition to the HDHP without disqualifying the HSA.
- Cannot be enrolled in Medicare.
- Cannot be eligible to be claimed as a dependent on someone else's tax return.

**Last-month rule.** If an individual is an eligible individual on the first day of the last month of his or her tax year (December 1 for most taxpayers), that individual is considered an eligible individual for the entire year. Special rules apply if the individual

does not remain an eligible individual during a full 12-month period. Exceptions apply in case of death or disability.

**Spousal HSAs.** HSAs cannot be joint accounts. Each spouse must open a separate account. However, if only one has an account, the funds in that account can be used to pay for expenses incurred by the other spouse, as well as the participant's dependents.

**High deductible health plan (HDHP).** An HDHP can provide for preventive care benefits, insulin products, and telehealth or other remote care services, without a deductible or with a deductible below the minimum limit. Family HDHP coverage covers an eligible individual and at least one other person. See *Preventative care benefits*, page 30-7. Family HDHP is coverage for an eligible individual and at least one other person.

### HSA Limitations

<b>Annual contribution is limited to:</b>	<b>2025</b>	<b>2024</b>	<b>2023</b>
Self-only coverage, under age 55.....	\$4,300	\$4,150	\$3,850
Self-only coverage, age 55 or older.....	\$5,300	\$5,150	\$4,850
Family coverage, under age 55*.....	\$8,550	\$8,300	\$7,750
Family coverage, age 55 or older*.....	\$9,550	\$9,300	\$8,750
<b>Minimum annual deductible:</b>			
Self-only coverage.....	\$1,650	\$1,600	\$1,500
Family coverage.....	\$3,300	\$3,200	\$3,000
<b>Maximum annual deductible and out-of-pocket expense limit:</b>			
Self-only coverage.....	\$8,300	\$8,050	\$7,500
Family coverage.....	\$16,600	\$16,100	\$15,000

\* Assumes only one spouse has an HSA.

**Prescription drug plans.** An HDHP can include a prescription plan as long as it does not provide benefits until the minimum annual deductible has been met.

**Family plans with deductibles for both family and individuals.** Some family plans have deductibles for both the family as a whole and for individual family members. Under these plans, if a taxpayer meets the individual deductible for one family member, he or she does not have to meet the higher annual deductible amount for the family. If either the deductible for the family as a whole, or the deductible for an individual family member, is below the minimum annual deductible for family coverage, the plan does not qualify as an HDHP.

**Example:** Joe has family health insurance coverage in 2025. The annual deductible for the family plan is \$4,500. His plan also has an individual deductible of \$2,000 for each family member. His plan does not qualify as an HDHP because the deductible for an individual family member is below the minimum annual deductible (\$3,300) for family coverage.

**Other health coverage.** The individual (and spouse if holding family coverage) generally cannot have any other health coverage that is not an HDHP. An individual can still be eligible even if the spouse has non-HDHP coverage, provided the taxpayer is not covered by that plan. See *Other health coverage*, page 30-8.

**Contributions.** Contributions for a tax year must be made by the return due date (no extensions). Eligible individuals and employers or any other person may make contributions on behalf of an eligible individual. Contributions to an HSA must be made in cash. See *HSA Limitations* chart, above.

**Rules for married people.** If both spouses are eligible individuals, and either spouse has family HDHP coverage, both spouses are treated as having family HDHP coverage. The total contribution limit for 2025 is \$8,550 (if both spouses are under age 55), split equally unless they agree on a different allocation. Special limits apply if either spouse is over age 55 or enrolled in Medicare. See

Age 55 or older additional contribution, page 30-9.

**Form 8889, Health Savings Accounts (HSAs).** Use Form 8889 to report all contributions to an HSA, including employer contributions. Form 8889 is also used to report the taxable and nontaxable amount of an HSA distribution.

**Rollovers.** Amounts from Archer MSAs and other HSAs can be rolled over into another HSA. Rollovers are not subject to the annual contribution limits. A taxpayer must roll over the amount within 60 days after the date of receipt. Only one rollover contribution to an HSA is allowed during a one-year period. These rules for HSA rollovers are the same as for IRA rollovers.

**Qualified HSA funding distribution.** A qualified HSA funding distribution is a one-time tax-free rollover from a traditional or Roth IRA to an HSA. The distribution cannot be made from an ongoing SEP IRA or SIMPLE IRA. See *Qualified HSA funding distribution*, page 30-9.

**Excess contributions.** Excess contributions are contributions for the year that exceed the annual limits. Excess contributions are not deductible. Excess contributions made by an employer are included in gross income. If the excess contribution is not included in box 1, Form W-2, report the excess as "Other Income" on line 8z, Schedule 1 (Form 1040), *Additional Income and Adjustments to Income*. See *HSA Limitations* chart, page 22-6.

Excess contributions may also be subject to a 6% penalty if they are not withdrawn by the due date of the return. See *Form 5329, Additional Taxes on Qualified Plans (including IRAs) and Other Tax-Favored Accounts*, page 30-11.

**Distributions.** The following rules apply.

- Distributions used to pay for, or reimburse, qualified medical expenses not covered by insurance are tax free. Distributions for any other purpose are taxable and subject to an additional 20% penalty. **Exception:** The 20% penalty does not apply to distributions after reaching age 65, or death.
- Distributions used to pay for medical expenses that were incurred prior to establishing the HSA are taxable.
- Qualified medical expenses include those that would otherwise be deductible as itemized deductions and, in addition, over-the-counter medicines, menstrual care products, and condoms.
- Qualified medical expenses do not include the insurance premiums for the high deductible health plan. However, insurance premiums for long-term care (subject to limits) and health coverage while unemployed qualify. If over age 65, health insurance and Medicare premiums (other than Medigap premiums) are qualified medical expenses for HSA purposes.

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**Author's Comment:** An adult child, under the age of 26, can be covered under his or her parent's health plan. However, HSA distributions for the adult child might not qualify if he or she does not meet the qualifications to be claimed as a dependent. Alternatively, the adult child may be able to set up his or her own HSA. See *Spouse or Dependent Medical Expenses*, page 4-4.

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**Failure to maintain HDHP coverage.** An individual can receive distributions from an HSA even if not currently eligible to contribute to an HSA.

**Death of HSA participant.** If a spouse is the beneficiary, the spouse is treated as the participant of the HSA after the death of the original participant. If someone other than a spouse inherits an HSA, it stops being an HSA and the FMV becomes taxable income to the beneficiary in the year of the HSA participant's death. If the estate is the beneficiary, the FMV is taxable on the decedent's final Form 1040. Any taxable amount is reduced by qualified medical expenses of the decedent paid within one year after the date of death.

**Employer participation.** Employers can provide employees with high deductible health plan coverage, contribute to an HSA on

behalf of an employee, and exclude the value of the benefits from taxable wages. If an employer contributes to an HSA for one employee, the employer must make comparable contributions to all comparable participating employees who have the same category of high deductible health coverage. If the HSA is offered through a cafeteria plan, the IRC section 125 cafeteria plan participation rules apply rather than the comparable contribution rules.

**Comparable contribution exception.** An exception applies to the comparable contribution rules which allows larger HSA contributions for nonhighly-compensated employees than for highly-compensated employees. For example, an employer is permitted to make a contribution to the HSA of each nonhighly-compensated employee for a year without making any contributions to the HSA of each highly-compensated employee.

**Employment taxes.** Amounts contributed to an employee's HSA are exempt from income tax and generally not subject to employment taxes. Report the contributions in box 12, Form W-2, and use code "W."

**Planning Tip:** A taxpayer can save on FICA taxes by funding his or her HSA with pre-tax salary deferrals (if available through employer's cafeteria plan) instead of taking a deduction on line 13, Schedule 1 (Form 1040), *Additional Income and Adjustments to Income*.

## Meals and Lodging (IRC §119)

The value of meals and lodging furnished to employees may be 100% excluded from taxable wages if all of the following are true.

- It is furnished on the employer's business premises,
- It is furnished for the employer's convenience, and
- In the case of lodging only, the employee accepts it as a condition of employment. The exclusion does not apply if the employee may choose to receive additional pay in lieu of lodging.

**Employer's deduction.** Employers can deduct 100% of qualifying lodging expenses provided to employees. However, certain meals may be limited to 50%. See *Meals*, page 8-9.

**Employer's convenience.** Meals and lodging are furnished to an employee for the employer's convenience if there is a substantial business reason other than to provide additional pay. A written statement that the meals or lodging are furnished for the employer's convenience is not sufficient.

**Meals.** The following indicate that meals furnished on the employer's premises are for the convenience of the employer.

- Meals are furnished during working hours so an employee is available for emergency calls during the meal period.
- Meals are furnished immediately after work because the employee did not have time to eat during normal working hours due to his or her duties.
- The meal period is short, such as 30 minutes, and the employee cannot be expected to eat elsewhere in such a short time.
- The employee could not otherwise eat proper meals in a reasonable amount of time because there are insufficient eating facilities near the place of employment.

**More-than-half rule.** The convenience-of-employer test only has to be met for more than half the employees in order to exclude the value of meals furnished to all employees.

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**Example:** Dave is a janitor at a hospital that maintains a cafeteria on its premises where all employees get meals at no charge during their working hours. The hospital has 230 employees, of which 120 employees are doctors, nurses, and support staff that must be available for emergencies requiring their services during meal periods. Although the hospital does not require these employees to remain on the premises, they rarely leave the hospital during their meal period. Since more than half of the employees meet the convenience of employer test, the value of Dave's meal is excluded from his taxable wages.

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### Meals not eligible for exclusion:

- Meals furnished to promote goodwill, boost morale, or attract prospective employees, except as discussed under the de minimis fringe benefit rules.
- Meals furnished on non-workdays, unless furnished with lodging that is excluded from wages.
- Meals furnished simply as additional compensation.

**Condition of employment test for lodging.** Lodging meets this test if the employee is required to live on the business premises to be able to properly perform his or her duties.

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**Example:** Adam works at a remote job site in Alaska. His employer furnishes lodging to employees. His employer requires Adam to accept the lodging as a condition of his employment. The value of the lodging is excluded from Adam's wages.

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**De minimis meals.** The value of any occasional meal provided to an employee may be excluded from taxable income if it has little value and accounting for it would be administratively impracticable. This includes items such as coffee, doughnuts, soft drinks, and occasional parties or picnics for non-highly compensated employees and their guests.

The de minimis meals exclusion also applies to meals provided at an employer-operated eating facility for employees if the annual revenue from the facility equals or exceeds the direct operating costs of the facility.

### Moving Expense Reimbursements [IRC §132(g)]

The moving expense deduction and exclusion from income provision are allowed only to members of the Armed Forces on active duty who move due to a military order because of a permanent change of station. See *Moving expenses*, Tab 3.

### No-Additional-Cost Services [IRC §132(b)]

A service provided to an employee may be excluded from taxable wages if it does not cause the employer to incur any substantial additional costs. The service must be offered to customers in the ordinary course of the line of business in which the employee performs substantial services.

These types of services are generally excess capacity services, such as airline, bus, or train tickets, hotel rooms, or telephone services provided free or at a reduced price to employees work-ing in those lines of business.

### Retirement Planning Services [IRC §132(m)]

The value of retirement planning advice provided to employees is excluded from taxable income if the employer maintains a qualified retirement plan. The exclusion does not apply to services for tax preparation, accounting, legal, or brokerage services.

### Transportation Commuting Benefits [IRC §132(f)]

The value of de minimis transportation benefits and qualified transportation benefits provided to employees are excluded from taxable wages. They can be provided directly by the employer or through a bona fide reimbursement arrangement.

**De minimis transportation benefits.** A de minimis transportation benefit is any local transportation benefit provided to an employee that has so little value that accounting for it would be unreasonable or administratively unpractical. For example, it applies to occasional local transportation fare provided to an employee because the employee is working overtime if the benefit is reasonable and not based on hours worked.

An employer may exclude as a de minimis benefit up to \$21 a month for employer-provided discounted public transit passes, tokens, or fare cards, public transit vouchers, or public transit commuting reimbursements.

**Qualified transportation benefits.** Qualified transportation benefits include the following.

**A ride in a commuter highway vehicle.** A commuter highway vehicle is any vehicle that seats at least six adults, not including the driver. At least 80% of the vehicle mileage must be for transporting employees between their home and workplace with employees occupying at least one-half the vehicle's seats, not including the driver.

**Transit pass.** Any pass, token, farecard, voucher, or similar item entitling the employee to ride, free of charge or at a reduced rate:

- On mass transit, or
- In a vehicle that seats at least six adults, not including the driver, operated by a person in the business of transporting persons for pay or hire.

**Qualified parking.** Qualified parking is parking on or near the employer's business location.

**Bicycle commuting.** Qualified bicycle commuting reimbursements are not excludable and are taxable as compensation to the employee.

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### Transportation Benefits Monthly Income Exclusion

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	2025	2024	2023
Combined commuter highway vehicle and transit passes.....	\$325.....	\$315.....	\$300
Qualified parking.....	\$325.....	\$315.....	\$300

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**Smartcards and debit cards.** Employer-issued smartcards and debit cards may qualify for tax-free treatment. (Rev. Rul. 2014-32)

**Employer deduction.** No employer deduction is allowed for qualified transportation benefits except as necessary for ensuring the safety of employees. (Reg. §1.274-13)

**Frequent flyer miles.** Frequent flyer miles accumulated on business travel and used personally by employees are not taxable. (Announcement 2002-18)

### Tuition Reduction [IRC §117(d)]

Educational institutions can exclude the value of a qualified tuition reduction provided to an employee from employee wages.

**Eligible educational institution.** An eligible educational institution is one that maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it regularly carries on its educational activities.

**Payment for services.** Generally, the part of any qualified tuition reduction that represents payment for teaching, research, or other services by the student must be included in income.

**Undergraduate.** A tuition reduction for undergraduate education generally qualifies for the exclusion if it is for the employee, a former employee who retired or left on disability, a surviving spouse of an individual who died while an employee, or a dependent child. See the *Who Qualifies as an Employee* chart, page 22-1.

**Graduate.** A tuition reduction for graduate education qualifies only if it is for the education of a graduate student who performs teaching or research activities for the educational organization.

### Working Condition Benefits [IRC §132(d)]

The value of property or services provided to an employee so that he or she can perform a job is excluded from taxable wages. An example of a working condition fringe benefit is a company car used by the employee for business. See *Employer-Provided Cell Phones*, page 22-4, and *Employer-Provided Vehicles*, page 22-4.