

De Minimis Fringe Benefits

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November 2005

What is a de minimis (minimal) fringe benefit? Does the employee have to claim these benefits as income? How do employers that award employees with gifts (e.g., extra cash, tickets to a ballgame, gift cards) treat these gifts? What qualifies as a de minimis fringe benefit?

What Is a Fringe Benefit?

When an organization gives out turkeys at Thanksgiving, awards movie tickets for perfect attendance or allows an employee the use of a company car, these benefits are referred to as “fringe” benefits. These are awarded to employees as a form of payment for services performed and are considered on the fringe of what companies typically offer. All fringe benefits are taxable to the recipient unless the law excludes them, as is the case with the de minimis benefit.

What Is a De Minimis Fringe Benefit?

The Internal Revenue Service (IRS) defines a de minimis fringe benefit as “any property or service that you provide to an employee that has so little value (taking into account how frequently you provide similar benefits to your employees) that accounting for it would be unreasonable or administratively impracticable.”

The IRS does not specify a dollar amount that is considered de minimis. The determination of whether a benefit should be considered de minimis is based on the fair market value (FMV) of the award, or the amount an individual would pay for the particular benefit in an “arm’s length transaction” (i.e., what the employee would have paid for the benefit had he or she purchased it). Cash can never be excluded, unless given for meals or transportation fees.

Examples of de minimis benefits:

- Occasional personal use of a company computer or copying services
- Holiday gifts with a low FMV (e.g., ham or turkey)
- Meals
- Occasional tickets for entertainment or sporting events
- Occasional parties or picnics for employees and their guests
- Transportation fee
- 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.

Examples of benefits *not* considered a de minimis benefit:

- Season tickets to sporting or theatrical events

- Free use of a company car to commute to and from work
- The use of an employer-owned or leased boat, hunting lodge, etc., for a weekend.

When creating programs and determining whether benefits can be considered a de minimis fringe benefit, the first thing to consider is the value of the benefit being awarded and the frequency of the benefit. Determining the value that the organization deems “so little that accounting for it would be unreasonable or administratively impracticable,” is probably one of the most difficult tasks. Once the value and frequency are determined, a policy should be created for guidance and consistency in application.

For more information on fringe benefits refer to the Employer’s Tax Guide To Fringe Benefits at <http://www.irs.gov/pub/irs-pdf/p15b.pdf>.

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