STATE OF CALIFORNIA

John Chiang,
California State Controller

STATE CONTROLLER'S OFFICE
PERSONNEL/PAYROLL SERVICES DIVISION
P. O. BOX 942850
Sacramento, CA 94250-5878

DATE: October 30, 2009 PAYROLL LETTER #09-014

TO: All Agencies/Campuses in the Uniform State Payroll System

FROM: Don Scheppmann, Chief
Personnel/Payroll Services Division

RE: **SPECIAL ACCOUNTING PERIOD FOR NON-CASH FRINGE BENEFITS**

This letter provides reporting instructions for **NON-CASH**, taxable fringe benefit values received in December 2009 and a sample employee notification letter regarding Special Accounting Period (SAP) provisions.

GENERAL INFORMATION

Per Payroll Procedures Manual (PPM), Section N175, the SAP for non-cash taxable fringe benefit values are December through November. Non-cash values received and reported to this office from December 2008 through November 2009 will be reflected on the 2009 Form W-2. Please refer to Payroll Letter # 09-011 for 2009 reporting cutoff dates.

The SAP requires special reporting for non-cash values received in December and mandatory notification to affected employees. The following provides reporting instructions for values received in December 2009 and a sample employee notification letter.

BENEFITS IMPACTED BY SAP

The values of **ALL NON-CASH** taxable benefits received by employees in December 2009 and reported to the State Controller's Office are reported under the SAP. Refer to PPM Section N175.1 for a complete benefit listing.

SPECIAL REPORTING INSTRUCTIONS—DECEMBER ONLY

Complete the Form STD. 676V NON-USPS ADJUSTMENT REQUEST--VALUES (FRINGE BENEFITS/EMPLOYEE BUSINESS EXPENSE) using PPM Section N172.2 procedures. When completing column 9 (issue date), **ENTER 01/01/10 FOR ALL NON-CASH VALUES RECEIVED DURING DECEMBER 2009**. Non-cash fringe benefits **MUST** be reported in the month following receipt of the benefit.

If the Form 676V is received by the 10th of the month, taxes will be withheld from that months Master payroll warrant. **NOTE:** Federal and State Income Taxes are not withheld from the December Warrant for fringe benefit amounts reported for November. See PPM Section Z Attachment N-2 for the Form STD. 676V submission schedule.

MANDATORY EMPLOYEE NOTIFICATION

The Internal Revenue Service **REQUIRES** employers (agencies/campuses) to:

1) Notify affected employees of SAP reporting provisions;

2) Instruct employees to use the same SAP (for value based benefits received in December) as the employer when filing personal income tax returns; and

3) Notify employees of the SAP **NO SOONER** than the receipt of the last paycheck of the calendar year and **NO LATER** than release of the employee's Form W-2.

NOTE: Agencies/Campuses are encouraged to use the attached sample notification letter to fulfill the mandated reporting requirements.

REMINDER

The State's goal is that all employers (agencies) comply with federal and state employment tax regulations. This requires each agency to report Fringe Benefits/Employee Business Expenses (FB/EBEs) on a timely, accurate and comprehensive basis. Timely reporting means when benefits were provided to employees. Accurate reporting entails proper completion of reporting documents. Comprehensive reporting means that your agency reported all applicable FB/EBEs provided to employees as defined in the PPM Section N120 – 175 and corresponding Payroll Letters. By complying with these requirements you prevent fines, penalties and assessments being levied by tax authorities. You also reduce direct business costs stemming from retroactivity and corrected Forms W-2.

CONTACTS

If you require additional information, use the following contacts for assistance:

SAP Questions
Chris Knutson (cknutson@sco.ca.gov) (916) 322-8112
Tax Support Section

FORM STD. 676V
Payroll Operations (916) 322-8100
W-2 Unit

DS: CK: TSS

ATTACHMENT

ATTACHMENT—SAMPLE LETTER TO EMPLOYEES IMPACTED BY SAP

January 8, 2010

Dear State Employee

The Internal Revenue Service (IRS) permits employers to adopt a Special Accounting Period (SAP) for reporting **non-cash**, taxable fringe benefit values. The SAP allows employers to report values received late in one calendar year as income in the subsequent tax year. The SAP minimizes late reporting, issuing corrected Forms W-2 and employees filing amended income tax returns.

In January 1996, the State Controller's Office adopted a December through November SAP calendar. For Tax Year 2009, your Form W-2 will show non-cash values reported for December 2008 through November 2009.

NON-CASH, TAXABLE FRINGE BENEFITS

Under the SAP Program, the following non-cash taxable values are affected:

-Value of State Housing
-Educational Assistance Program
-Dues and Memberships
-Loan Assumption Program
-Group-Term Life Insurance (Legislators)
-Loan Forgiveness Program
-Out-Placement
-Scholarships (Fee Waiver Program)
-Vehicle Provided by Third Parties
-Miscellaneous Incentive Program
-Overtime Meal Compensation
(i.e., Meal Tickets)
-Lottery Sales Recognition
-Rideshare Incentive Award Program
-Personal Use of State Vehicle
-Car/Vanpool
-Forgivable Loan/Doctoral Incentive Program
-Tickets
-Merit Award Program (non-cash)
-Commuter Highway Vehicle
-Uniform Allowance
-Discount Travel/Transit Pass (non-cash)
-Electronic Devices
-Incentive Provided by Third Parties (non-cash)

IRS REQUIREMENTS

IRS **requires** that employees use the same accounting period (December through November) when filling tax returns. Itemized deductions related to non-cash, taxable values received in December 2009 must be claimed in the following tax year (2010).

QUESTIONS

If you have any questions regarding the SAP program, please contact your Personnel/Accounting Office. **Contact your tax advisor or the IRS regarding tax-filing questions.**