

Year-End Payroll Considerations
Fringe Benefits, Reporting Challenges & W-2 Requirements

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Year-End Considerations & Changes for 2026

1. Taxable fringe benefits
2. Non-taxable fringe benefits
3. 2026 fringe benefits changes
4. Working condition fringe benefits
5. W-2 reporting, common pitfalls and the year-end close



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Taxable Fringe Benefits

Fringe benefits provided to employees are considered taxable unless specifically excluded.

Group-Term Life Insurance

- You can generally exclude the cost of up to $50,000 of group-term life insurance
- The imputed cost of employer-carried group-term life insurance coverage over $50,000 is included in taxable income and generally subject to Social Security and Medicare taxes, but not federal income tax withholding

Personal Use of Company Car

- Multiple options for calculating amount to include in wages
- Value of benefit is considered wages and subject to all payroll taxes



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Taxable Fringe Benefits

Fringe benefits provided to employees are considered taxable unless specifically excluded.

Reimbursements under a nonaccountable plan

- Reimbursements that are not properly substantiated are considered wages
- Reimbursements that are properly substantiated under an accountable plan are not considered wages

Cash bonuses, gift cards, prizes, and awards

- Cash payments or cash equivalents provided to employees are considered wages subject to all payroll taxes
- This includes year-end bonuses and gift cards





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Non-Taxable Fringe Benefits

De minimis benefits provided to an employee can be excluded from taxable wages

- Coffee and donuts
- Occasional office parties
- Occasional theater or sporting event tickets (but not season tickets)
- IRS Publication 15-B for additional information







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Fringe Benefit Updates for 2026



Employer provided educational assistance

- One Big Beautiful Bill Act made the $5,250 annual exclusion permanent. The annual exclusion amount will be indexed for inflation beginning in 2027.



Dependent care assistance

- For the 2026 tax year, the annual dependent care FSA limit was raised from $5,000 to $7,500 ($2,500 to $3,750 for married filing separately).
- The limits are not indexed for inflation, so they remain the future-year statutory amounts unless Congress changes the law.

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Fringe Benefit Updates for 2026

Mileage rates for 2026

- 72.5 cents per mile: January 1, 2026 – June 30, 2026
- 76.0 cents per mile: July 1, 2026 – December 31, 2026

2026-2027 Special Per Diem Rates

- IRS Notice 2026-60
- Annual notice providing special per diem rates



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Fringe Benefit Updates for 2026



Trump Accounts

- Under proposed regulations, an employer's written Trump Account contribution program may permit employer contributions and prospective employee salary-reduction contributions through a Section 125 cafeteria plan. Salary-reduction contributions are permitted only for a dependent's Trump Account, not the employee's own Trump Account. The aggregate exclusion is generally limited to $2,500 per employee per year and is subject to applicable plan and nondiscrimination requirements.
- Visit www.trumpaccounts.gov for updates.

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Working Condition Fringe Benefits

Working condition benefits may or may not be considered taxable wages

- Cell Phone
- Continuing Education
- Employee Meals
- Professional Dues
- Uniforms





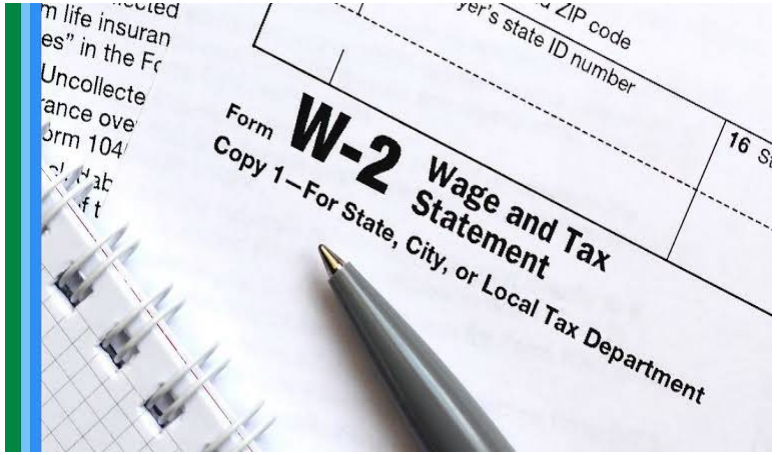


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W-2 Reporting Requirements

Where each item lands

Map applicable imputed items to the appropriate boxes and codes before the first W-2 preview, then reconcile the respective totals to the quarterly Forms 941.



1

Boxes 1, 3 and 5 (as applicable)

- Personal use of a company vehicle, with Box 14a disclosure
- Gift cards, prizes, awards and cash bonuses
- Educational assistance above $5,250
- Nonaccountable plan reimbursements and excess per diems
- Group-term life above $50,000, except federal income tax withholding

2

Box 12 codes

- Code C — group-term life coverage over $50,000
- Code W — employer and pre-tax employee HSA contributions
- Code T — adoption assistance
- Codes M and N — uncollected FICA on former employees
- Codes V, Y and Z — equity and deferred compensation

3

Boxes 10, 13 and 14

- Box 10 — dependent care assistance, with excess moved to wages
- Box 13 — third-party sick pay and retirement plan checkboxes
- Box 14a — 2% shareholder health premiums
- Box 14a — vehicle value disclosure and state-specific items
- Boxes 15 to 20 — confirm multistate allocations

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W-2 Reporting Requirements

Deadlines and corrections



- Forms W-2 and W-3 are due to employees and the SSA by February 1, 2027
- E-filing is required at 10 or more information returns in aggregate
- Corrections require Form W-2c and often Form 941-X
- Corrections may also require other corrected employment tax returns, ex. State, local, etc…
- Penalties rise with how late the correction is filed
- Keep valuation workpapers with the year-end payroll file

New for 2026: tips and qualified overtime

- Box 12, code TT: qualified overtime (FLSA premium only). Box 12, code TP: cash tips reported to the employer.
- Box 14b: Treasury Tipped Occupation Code(s) (TTOC).

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Common Reporting Challenges

Where year-end breaks down



W-2 corrections can result from recurring process breakdowns, including incomplete benefit reporting, delayed information, and undocumented valuation decisions

Visibility

- Benefits approved by HR or paid through accounts payable never reach payroll.
- Executive perks are arranged outside normal approval channels.
- Gift cards are bought on corporate cards and expensed as supplies.
- Acquired entities carry benefit practices nobody has reviewed.

Illustrative example

HR buys holiday gift cards but sends no recipient list to payroll, so the awards never enter wages.

Mechanics

- Fair market value is replaced with employer cost or an outdated table.
- Vehicle valuation methods switched mid-stream.
- The special accounting rule applied without notifying employees.
- Imputed income posted after the final payroll, leaving no wages to withhold FICA from.

Illustrative example

Finance sends personal vehicle-use details after the final paycheck, leaving no wages for withholding.

Consequences

- Uncollected FICA on terminated employees requiring codes M and N.
- W-2c forms, amended Forms 941, and employee friction in filing season.
- Late-filing and incorrect-return penalties that scale with delay.
- Audit exposure where valuation decisions were never documented.

Illustrative example

Payroll discovers an omitted benefit after W-2 delivery and must issue a W-2c during filing season.

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Other Frequently Encountered Items

Don't let these slip



Benefits provided outside of payroll may be overlooked until a correction is required.

Spousal and personal travel

Spousal or family travel without a bona fide business purpose is generally taxable to the employee. Special valuation rules may apply to employer-provided aircraft

Club dues and memberships

Country club, health club, and social club dues are generally fully taxable, even when membership is used primarily for client entertainment.

Employer-provided meals

Employer-provided meals may be excluded when a specific exclusion applies. Cash meal allowances and routine catered meals should be reviewed separately and are often taxable

Third-party sick pay

Requires the Box 13 third-party sick pay checkbox and coordination with the insurer. Request the insurer statement in December, not after January 31.

Adoption and dependent care

Adoption assistance is excluded from Box 1 but subject to FICA and reported in Box 12 code T. Dependent care is reported in full in Box 10.

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The Year-End Close

A four-month runway



Identify obligations early, impute while there are still wages to withhold against, and close with confidence.

October — Inventory

- Survey HR, accounts payable, fleet, and executive admin for anything of value given to employees.
- List every benefit, perk, allowance and award paid during the year.
- Flag owners, 2% shareholders and their family members.

November — Validate

- Collect mileage certifications and confirm vehicle valuation elections.
- Verify group-term life coverage amounts and year-end ages.
- Sweep owner benefits and clear outstanding advances and unsubstantiated expenses.

December — Impute

- Process imputed income on a payroll with enough wages to withhold FICA.
- Run a W-2 preview and tie Boxes 1, 3 and 5 to the Forms 941.
- Notify employees in writing of any special accounting rule election.

January — File

- Deliver Forms W-2 and W-3 to employees and the SSA by February 1.
- Retain valuation workpapers supporting applicable imputed amounts.
- Hold a short post-mortem and fix the gaps before next year begins.

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