

STATE OF CALIFORNIA

KATHLEEN CONNELL,
Controller of California

=====

OFFICE OF STATE CONTROLLER
PERSONNEL/PAYROLL SERVICES DIVISION
300 Capitol Mall
P.O. Box 942850
Sacramento, CA 94250-5878

DATE: July 26, 1999

PAYROLL LETTER #99-015
CSU ONLY

TO: All Campuses in the Uniform State Payroll System

FROM: RALPH ZENTNER, Chief
Personnel/Payroll Operations Bureau

RE: DUES AND MEMBERSHIPS

PLEASE CHECK WITH YOUR ACCOUNTING OFFICE TO DETERMINE
WHETHER THEY RECEIVE PAYROLL LETTERS VIA OFFICEVISION. IF
THEY DO NOT, PROVIDE A COPY OF THIS LETTER TO THEM.

This letter provides wage reporting/tax withholding
instructions for payment of dues and memberships for
employees in professional and non-professional
organizations. These payments may represent reportable/
taxable income.

GENERAL INFORMATION

Dues and memberships paid for an employee by an employer
may be excluded as a working condition fringe benefit if
the following Internal Revenue Service (IRS) exclusion
criteria are met. However, memberships in any club
organized for business, pleasure, recreation or other
social purpose represent taxable, reportable income.

Working Condition Fringe Benefit

IR Code Sections 132(d), 162 and 274 define working
condition fringe benefit as any property or service
provided to an employee of the employer to the extent that,
if the employee paid for such property or service, such
payment would be a deduction for the employee.

Qualifying Dues and Memberships

Dues and membership fees for employees in some professional organizations are paid by the California State University (CSU). Taxability of these payments is based on whether membership is required for completion of the employee's duties and/or advances the business interest of the employer. To qualify as non-taxable, there must be a logical connection between membership in the organization and the employee's job.

EXAMPLE 1 (NON-TAXABLE): An employer pays for an accountant's dues or membership in a certified public accountant society. Because participation in the society is directly related to the employee's job classification and job performance, the payment is non-taxable.

Non-qualifying Dues and Memberships

Dues and memberships in any club organized for business, pleasure, recreation or any other social purpose do not qualify as working condition fringe benefits. This rule applies to any membership organization if one of its principal purposes is to conduct entertainment activities for members or their guests, or to provide members or their guests with access to entertainment facilities.

The purpose and activities of a club, not its name, determines if the membership meets the working condition fringe benefit exclusion. IRS has ruled that dues and memberships paid to country clubs, golf and athletic clubs, airline clubs, hotel clubs and clubs operated to provide meals do not meet the exclusion.

EXAMPLE 2 (TAXABLE): An employer pays for an employee's dues and membership to a local country club or athletic facility. These payments do not meet IRS exclusion criteria and are taxable, reportable income.

REPORTING REQUIREMENTS

Effective immediately, taxable dues and memberships must be reported monthly to the State Controller's Office via Forms STD. 676, NON-USPS ADJUSTMENT REQUEST.

- * Form STD. 676P is used for reporting payments made directly to the employee.
- * Form STD. 676V is used to report payments made to a third party, such as a country club.

FORM STD. 676 COMPLETION INSTRUCTIONS

When completing the Form STD. 676, please refer to the Payroll Procedures Manual (PPM), Section I-163. The following Item Code and Item Description must be entered on the Form STD. 676 when reporting dues/memberships:

<u>Item Code</u>	<u>Item Description</u>
DM	Dues/Memberships

WITHHOLDING REQUIREMENTS

Taxable dues and memberships amounts are subject to Federal/State Income and applicable Social Security/Medicare taxes. All taxes will be held from a subsequent, regular payroll warrant.

CONTACTS

PPM revisions are forthcoming. Please use the following contacts for assistance:

Form STD. 676 Completion
Payroll Operations
W-2 Unit (916) 322-8100

Reporting Requirements
Jim Fiack
Tax Support Section (916) 322-8128

RZ: JF/TSS