EMPLOYEE COMPENSATION

A stipend is defined as a fixed sum of money paid periodically for services or to defray expenses. The fact that remuneration is termed a “fee” or “stipend” rather than salary or wages is immaterial. Wages are generally subject to employment taxes and should be reported on Form W-2, Wage and Tax Statement. Refer to Publication 15, Circular E, Employer's Tax Guide, located on the IRS website, www.irs.gov/.

Section 31.3121(a)-1(b) of the Employment Tax Regulations (Internal Revenue Code) provides the following information: the term “wages” means all remuneration for employment unless specifically excepted under section 3121(a). Section 31.3121(a)-1(c) provides that the name by which the remuneration for employment is designated is immaterial. Thus, salaries, fees, bonuses, and commissions on sales or on insurance premiums, are wages if paid as compensation for employment.

Hypothetically speaking, you provide a health care stipend to employees, $150 per pay period. It is designed to provide an additional subsidy for the employee’s medical insurance premiums (medical insurance is not provided by the employer). Proof of expense is not required by the employer and the compensation is available for the employee to use for any purpose. In this situation, the Health Care Stipend constitutes taxable income to employees. The value of the benefit will be included in the employee’s taxable wages as reported to the IRS on the employee’s W-2 and all applicable taxes should be withheld. The tax implications are the same as if you just gave the money to the employees, without calling it a health insurance stipend, it is taxable.

IPERS has instructed us to have each individual county contact them with the specifics of the compensation/fee/stipend. Their senior compliance officers will review on an entity by entity basis. They strongly recommend getting a written ruling from IPERS so that you know you are in compliance.