



UNIVERSITY OF ARKANSAS
FOR MEDICAL SCIENCES

UAMS ADMINISTRATIVE GUIDE

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SECTION: Human Resources

AREA: Payroll

SUBJECT: Employer Provided Cell Phones

PURPOSE

To notify departments within the University of Arkansas for Medical Sciences (UAMS) of the requirements and procedures for accounting for personal use of employer provided cell phones.

SCOPE

All UAMS employees, faculty and staff with UAMS provided cell phones.

POLICY

UAMS recognizes it is necessary to provide certain employees with cellular telephones to conduct business. This raises special tax concerns, due to the fact that cell phones are considered "listed property" under the Internal Revenue Code. "Listed property" includes items obtained for use in a business but designated by the Internal Revenue Code as lending themselves easily to personal use. To be able to exclude the use of an employer provided cell phone from an employee's taxable income, the employer must have some method that distinguishes business usage from personal usage.

UAMS has estimated that personal use is at or below 10%. While personal use may be below 10%, UAMS feels it is better to be conservative than to risk being out of compliance with tax law. An amount equal to 10% of each business cell phone user's monthly cost will be added to the user's W-2 as a taxable benefit unless the user can demonstrate that he/she has a separate cell phone used exclusively for personal calls and can support 0% personal usage on his/her UAMS cell phone. If the user estimates personal use is greater than 10% the additional cost will be added to the user's W-2.

Please note that it is better to overestimate personal usage than to underestimate. If an IRS detail audit reveals personal use is greater than what was estimated, the entire cell phone expense would be considered taxable, the individual would have to pay tax on the entire cost and our organization would be charged penalties for being out of compliance with tax law.



PROCEDURES

1. On an annual basis the Finance Department will send out a survey to all campus users of UAMS provided cell phones to confirm if the average amount of personal usage across campus is either less than or equal to 10% or greater than 10%. If greater than 10%, the general personal usage percentage will be increased to that amount.
2. Division administrators or designees should obtain a personal usage certification from each cell phone user on a yearly basis. If an IRS audit reveals that the rate selected by an employee is too low, the employee will be held personally responsible for any additional taxes and penalties that are attributed to that employee's UAMS cell phone. UAMS has been told the IRS will consider a 10% imputed rate reasonable.
3. It is the responsibility of division administrators to track and calculate the taxable benefit for each cell phone user. Note: Technically the IRS regulation requires detailed documentation of the use of each call but we have been advised by IRS agents that they will accept a "reasonable" estimate without detailed documentation. Our IRS source says they will consider 10% reasonable.
4. The reporting period is October 1 to September 30. By November 15, division administrators will forward an electronic summary spreadsheet to payroll which includes the following information for each cell phone user in the division:
 - a. Name and SAP number
 - b. Total cell phone expense paid by UAMS during the year
 - c. Amount to be included as a taxable benefit on employee's W-2

Example Calculation: An employee's cell phone expense is \$80 per month. Total expense for the year is \$960. If the employee's estimated personal use is 10% or less, the taxable benefit would be \$96. This is the amount that will be added to the employee's W-2. Assuming a tax rate of 28%, the employee would owe an additional \$27 to the IRS.

5. All cell phone documentation is subject to review by the Finance Department, UA Internal Audit, UAMS contracted auditors, Legislative Audit personnel, and IRS auditors. Cell phone documentation and certifications should be maintained in the departments for three years.

REFERENCES

Link to related IRS guidance: <http://www.irs.gov/govt/fslg/article/0,,id=167154,00.html>