

**UNIVERSITY OF CALIFORNIA
CELL PHONE IMPUTED INCOME/CASH ALLOWANCE FORM**

This form is used to calculate the cash allowance reimbursing an employee for imputed income associated with a cell phone or personal digital assistant (PDA), such as a BlackBerry or similar device, and related accessories provided by the University to the employee. Since the allowance itself is taxable, it will be increased using the IRS gross-up formula to reimburse the employee for applicable payroll taxes associated with the payment (see [Instructions](#)).

Type of Action: **New** **Change** **Cancellation**

Part I: Employee Information

Employee Name:		Service Plan End Date:	
Employee ID:	Home Dept:	Cell Phone No.:	
<p>Exemptions</p> <input type="checkbox"/> Out-of-State Employee - Do not check box if employee is a California resident. Specify State: _____			
<input type="checkbox"/> Treaty Eligible Foreign National			
<input type="checkbox"/> Exempt from OASDI - Check box if employee earns more than the OASDI Wage Limit or is not subject to OASDI.			
<input type="checkbox"/> Exempt from OASDI and Medicare			
<input type="checkbox"/> Exempt from Federal Tax - Check box if employee claimed tax exempt on his/her Form W-4/DE-4.			
<input type="checkbox"/> Exempt from State Tax - Check box if employee claimed tax exempt on his/her Form W-4/DE-4.			
<input type="checkbox"/> Other Specify: _____			

Part II: Calculation of Cash Allowance Applicable to Imputed Income

<p>Imputed Income: Monthly Plan Cost and/or One-Time Purchases</p> <p align="center">Specify One-Time Purchase(s): _____</p> <p>Applicable Tax Rates:</p> <input type="checkbox"/> Federal <input type="checkbox"/> State Other State: _____ <input type="checkbox"/> OASDI <input type="checkbox"/> Medicare
<p>Cash Allowance:</p>

Part III: Payroll Information

A separate distribution should be established in the PPS for the imputed income and cash allowance related to the monthly plan costs using the DOS codes listed below. For one-time purchases, the information below should be used to create one-time transactions in the PPS. New distributions should not be established for one-time purchases.

CEL DOS Code (Imputed Income)

ACCOUNT	CC	FUND	PC	SUB	FTE	DIS%	PAY BEGIN	PAY END	RATE/AMT	DOS	PRQ
										CEL	CEL

CE2 DOS Code (Cash Allowance)

ACCOUNT	CC	FUND	PC	SUB	FTE	DIS%	PAY BEGIN	PAY END	RATE/AMT	DOS	PRQ
										CE2	

Supervisor Signature: _____

Date: _____

**INSTRUCTIONS FOR CELL PHONE IMPUTED INCOME/
CASH ALLOWANCE FORM
Revised: 05/22/2009**

The purpose of this Form is to calculate the cash allowance reimbursing an employee for imputed income associated with a cell phone or cell-phone enabled personal digital assistant (PDA), such as a BlackBerry or similar device, and related accessories provided by the University to an employee. Employees who receive such equipment must have the value of the device and monthly service plan cost added to their taxable earnings as “imputed” income. These employees will receive a cash allowance, however, reimbursing them for the tax on the imputed income. Since the allowance itself is taxable, it will be increased using the IRS gross-up formula to reimburse the employee for applicable payroll taxes related to the payment (see [FAQs](#)). This web-based Form will automatically calculate the cash allowance based on the information entered for the individual.

Part I: Employee Information

Enter the requested employee information and any tax exemptions applicable to the individual (check the appropriate box). If the service plan is not month-to-month, enter the service plan end date. If the employee is working out-of-state and is not a resident of California, check the Out-of-State Employee box and enter the name of the other state. If the employee working out-of-state is a California resident, do not check the “Out-of-State Employee” box. If the employee is eligible for an exemption not listed, check the “Other” box and identify the type of exemption in the space provided.

The following table may be used to determine if an employee qualifies for an exemption. If an employee is eligible for a tax exemption, the applicable exemption code should be displayed on the Employee Data Base (EDB) screen below:

<u>Exemptions:</u>	<u>EDB Screen</u>	<u>Field</u>	<u>Code</u>
Out-of-State Employee	IGEN	Calif Tx Marit/Pers	997
Specify State	IGEN	Other St Name	XX ¹
Treaty Eligible Foreign National	IGEN	Citizen	E or F
Medicare Only	IGEN	FICA Elig	M
Exempt from OASDI and Medicare	IGEN	FICA Elig	N
Tax Exempt Federal	IGEN	Fed Tx Marit/Allow	998
Tax Exempt State	IGEN	Calif Tx Marit/Allow	998

¹ Displayed on the IGEN screen as the state abbreviation, e.g., “AL” (Alabama).

If any of the exemption fields are not included on the EDB screens available to your department, you must contact your campus Payroll Office to obtain the required information.

The information entered in Part I, will be used to calculate the amount and duration of the cash allowance paid to the employee.

Part II: Calculation of Cash Allowance Applicable to Imputed Income

Imputed Income – Use the Imputed Income field to enter the monthly cost of the cell phone or PDA service plan, including the cost of the device. This amount will be added to the employee’s taxable earnings as imputed income and will be subject to applicable withholding for Federal and State income taxes, OASDI (i.e., Social Security), and Medicare.

- If the cost of the device is not included in the monthly service plan amount at the time the contact is established with the carrier, it should be prorated and added to the monthly plan amount for the period of the contract.
- If the monthly plan cost is not a constant amount because of minor changes in taxes, fees, or other surcharges, the monthly plan cost should be estimated so that the amount is sufficient to cover such additional expenses charged for the term of the contract.

The imputed income field should also be used to record the imputed income related to ***one-time*** purchases incurred while the plan is in effect such as the cost of cell phone accessories, expenses for repairs, the cost of replacing a lost or stolen device, or the cost of equipment upgrades. Use this field to enter the cost of the cell phone handset if it is not included in the monthly plan cost and the service agreement is month-to-month. Imputed income related to these transactions should be recorded as one-time transactions separate from the monthly imputed income related to the service plan (see Part III below).

Cash Allowance - Based on the imputed income entered for the employee, the monthly cash allowance will be calculated automatically in accordance with the IRS formula for such taxable payments. The following standard tax rates will be used to calculate the cash allowance unless one of the exemption categories is checked in Part I:

- Federal income taxes, 28%;
- State of California income taxes, 8.25%;
- OASDI, 6.2%; and
- Medicare, 1.45%.

If the employee is working out-of-state and is not a California resident, enter the other state withholding rate. (The withholding rate for the state may be obtained from the campus Payroll Office.) If the Other exemption box was checked in Part I, uncheck the applicable tax rate box in this Part.

The following examples illustrate how the cash allowance could be calculated.

Example 1: Assume an employee is provided with a \$50 per month cell phone plan and is subject to OASDI and Medicare withholding on all of his or her annual earnings. The cost of the handset is included in the monthly plan cost. The monthly allowance, including reimbursement for taxes, would be \$35.60 calculated as follows:

W = Monthly Allowance, less imputed income

W = $\frac{\text{Plan Cost}}{1 - \text{Applicable Tax Rates}}$

W = $\frac{\$50.00}{1 - .28 - .0594^2 - .062 - .0145}$

W = $\frac{\$50.00}{.5841}$

W = \$85.60

W = \$85.60 - \$50.00 (imputed income)

W = \$35.60

If the employee's annual earnings will exceed the OASDI limit, the "Exempt from OASDI" box in Part I should be checked. The Form will then calculate the cash allowance excluding this rate. In the example above, the cash allowance would be \$27.39 for an employee who will exceed the OASDI limit.³

Example 2: Assume an employee is provided with a \$50 per month cell phone plan and is subject to OASDI and Medicare withholding on all of his or her annual earnings. The cost of the handset is included in the monthly plan cost. The biweekly allowance, including reimbursement for taxes, would be \$16.43 calculated as follows:

W = Monthly Allowance, less imputed income

² Under the IRS formula, the State rate must be reduced by the Federal rate (i.e., $.0825 - (.28 \times .0825) = .0594$) since state taxes paid by an individual are deductible on his or her Federal income tax return.

³ Without OASDI, the gross-up calculation on a \$50 plan would be as follows: $\$50.00 / (1 - .28 - .0594 - .0145) = \$77.39 - \$50.00 = \27.39 .

$$W = \frac{\text{Plan Cost}}{1 - \text{Applicable Tax Rates}}$$

$$W = \frac{\$23.08^4}{1 - .28 - .0594^5 - .062 - .0145}$$

$$W = \frac{\$23.08}{.5841}$$

$$W = \$39.51$$

$$W = \$39.51 - \$23.08 \text{ (imputed income)}$$

$$W = \$16.43$$

Part III: Payroll Information

A separate distribution should be established in the PPS for the imputed income and cash allowance related to the monthly plan costs using the DOS codes listed below. For one-time purchases, the DOS codes should be used to create one-time Payroll Time Reporting (PTR) transactions in the Payroll/Personnel System (PPS):

- **Imputed Income** - DOS code "CEL" should be used to establish the imputed income distribution. This distribution should be set up for the term of the service agreement. If the service agreement is month-to-month, the distribution should be set up with an indefinite end date until the phone is returned or replaced. If the imputed income relates to a one-time purchase, it should be processed as a one-time transaction using the CEL code. Such one-time transactions should not be set up as distributions or appointments on the EDB.
- **Cash Allowance** - DOS code "CE2" should be used to establish the distribution for the cash allowance. This distribution must match the duration of the imputed income distribution established under the CEL code. The CE2 code should also be used to generate a one-time payment reimbursing an employee for taxes applicable to any one-time purchases processed under the CEL code.

If you're setting up a new appointment and you want to ensure that the imputed income and cash allowance transactions are processed automatically in the PPS, use the following codes:

⁴ The plan cost for a biweekly paid employee is calculated as follows: (Monthly Plan Cost x 12) / 26.

⁵ Under the IRS formula, the State rate must be reduced by the Federal rate (i.e., $0.0825 - (.28 \times 0.0825) = 0.0594$) since state taxes paid by an individual are deductible on his or her Federal income tax return.

- Fixed/Variable: **Fixed**
- Leave: **N** (Not subject).
- Time: **R** (Exception Online)

Note: For one-time payments, use the one-time payment screen (EDFT) to schedule the payment.

A copy of the Form should be provided to the employee for his or her records.

**University of California
Cell Phone Policy
Frequently Asked Questions**

Revised: 05/01/09

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Frequently Asked Questions

The answers to the frequently asked questions (FAQs) listed below supplement the information included in Business and Finance Bulletin G-46, Guidelines for the Purchase and Use of Cellular Phones and Other Portable Electronic Resources.

1. Why is the University treating my cell phone as a taxable benefit?

The Internal Revenue Service (IRS) considers cell phone use a taxable fringe benefit if the business and personal use are not substantiated. Only recently has this issue emerged as a problem in IRS audits of colleges and universities, including recent audits of some University of California campuses.

2. I have been paying for personal calls made on my University-owned cell phone. Aren't I meeting the IRS requirements?

You would think so, but under IRS regulations it is not enough to simply pay for your personal calls and say all the rest are business. The IRS requires that the use of an employer-provided cell phone be documented in a very detailed manner. In addition to identifying all personal calls on the employee's monthly cell phone statement, the employee must *note the purpose of each business call*. In the absence of such documentation, the IRS can treat all undocumented calls as personal and the value of those calls as additional wages, even if the calls were mostly business calls.

3. Why is a cell phone treated differently than the phone on my desk?

Because a cell phone is portable and may be taken off the employer's business premises, Congress established the detailed business substantiation rules applicable to this equipment and similar devices. The business use rules that apply to equipment intended to stay in your office, such as a desk phone, are less restrictive.

4. This seems ridiculous. Why are you putting us through this?

While the documentation requirements may seem unreasonable to us and to most taxpayers, the IRS takes them very seriously in its audits of business and governmental employers. Legislation has been introduced by both the U.S. House and the Senate to modernize the cell phone substantiation rules, but it is not known when, or if, Congress will take action to approve these bills.

5. Why should I have to pay taxes for a phone I don't own? Is this fair?

It doesn't matter that the phone is owned by the University. The phone only has to be provided for your use in order for the IRS substantiation rules to apply.

6. How will my University cell phone affect my taxable income?

The monthly cost of your cell phone service plan, including the cost of the phone itself, will be treated as **imputed income**, which will be added to your taxable earnings as additional wages effective with June 2009 earnings. Withholding for taxes on the imputed income will be taken from your regular pay. However, you will receive a monthly **cash allowance** to reimburse you for the taxes on the imputed income. Since the cash allowance itself is taxable, it will be increased or "grossed up" to reimburse you for applicable payroll taxes based on the IRS formula for such taxable payments.

7. How will the cash allowance be calculated?

The monthly cash allowance will be calculated using the following standard tax rates: Federal income taxes, 28%; State of California income taxes, 8.25%; OASDI or Social Security (if applicable), 6.2%; and Medicare (if applicable), 1.45%. For example, assume you have a \$50 per month cell phone plan and you are subject to OASDI and Medicare withholding on all of your annual earnings. Under the IRS formula, your monthly cash allowance, including reimbursement for taxes, would be \$35.60 calculated as follows:

W = Monthly allowance, less plan cost (imputed income)

$$W = \frac{\text{Plan cost}}{1 - \text{Applicable tax rates}}$$

$$W = \frac{\$50}{1 - .28 - .0594^1 - .062 - .0145}$$

$$W = \frac{\$50}{.5841}$$

$$W = \$85.60$$

$$W = \$85.60 - \$50 \text{ (plan cost)}$$

¹ Under the IRS formula, the State of California rate must be reduced by the Federal rate (i.e., $.0825 - (.28 \times .0825) = .0594$) since state taxes paid by an individual are deductible on his or her Federal income tax return.

W = \$35.60

8. What if my Federal and State tax brackets are higher than 28% and 8.25%, respectively?

Standard income tax rates have been used that approximate an employee's tax liability. Calculating individual allowances based on an employee's marginal income tax rates would introduce a new level of complexity that would be at odds with the University's goal to reduce the administrative burden associated with providing this benefit.

9. What If my business usage exceeds the number of minutes available under my service plan? What about excess data charges for e-mail and document downloads, etc?

Most of the University's cell phone carriers provide plans with pooled minutes (and rollover minutes) to absorb excess minutes due to temporary spikes in phone usage. If your plan does not include pooled minutes or if the pool can not absorb the minutes, your department will ask you to review the cell phone bill and note the business purpose for each call exceeding your plan minutes. Any minutes for personal calls must be reimbursed at the excess minute rate. If there will be an ongoing increase in your business usage, you should ask your department to increase the number of minutes under your plan. Excess data charges would be handled in the same manner if your plan does not provide for unlimited data usage.

10. What if my cell phone is lost or stolen or damaged?

Notify your department and your carrier immediately. Subject to *approval* by your department, you will receive a one-time allowance reimbursing you for the imputed income associated with the cost of repairing or replacing your phone.

11. Can I use my cell phone for personal calls?

Yes. Because you will be taxed on the full cost of the phone and service plan, you may use your cell phone for incidental personal calls. However, the cost of your cell phone plan is based on the number of minutes you need for University **business** use.

12. Can I purchase additional minutes for personal use if I pay for the minutes myself?

No. Since your cell phone is owned by the University, the number of minutes purchased under your cell phone plan will be based on the estimated number of minutes needed for business purposes.

13. Can I add a business phone to an existing family plan if it is cheaper than receiving a new phone and getting a new number under the University's imputed income/cash allowance policy?

No. Employees will not be reimbursed for the purchase of individually-owned cell phones. Under the policy, employees may only receive phones purchased by the University.

14. What if I use my personal cell phone for University business, can I get reimbursed for those calls?

You may be reimbursed for your business calls but only if you exceed your plan minutes for the month. Your reimbursement will be calculated at the excess minute rate, up to the number of minutes exceeding your plan limit for the month. You will need to provide your department with a copy of your cell phone statement noting the person called and the business purpose for each call. If you regularly exceed your plan minutes because of business-related calls, you should ask your department to purchase a cell phone for your business use.

15. How will the reimbursement of my business calls be calculated?

You are eligible only for reimbursement of your business calls if you incur additional expenses by exceeding your plan minutes for the month. For example, assume you have 50 minutes of business calls but you exceed your plan minutes by only 30 minutes and incurred overage charges of 40 cents per minute or \$12.00 (30 x 40 cents). Your reimbursement would be limited to \$12.00 since you incurred only 30 excess minutes. As provided under the current policy, you may not be reimbursed for the additional business calls made within your package minutes or for a percentage of total calls made.

16. What about BlackBerrys and other PDAs?

If your job requires that you have access to e-mail, calendaring, custom text messaging, document creation and editing, or other personal digital assistant (PDA) functions in addition to cell phone capability, your department may approve the purchase of a BlackBerry, Palm Treo, or other device that provides these features. If you receive a cell phone-enabled PDA, the imputed income associated with the cost of the device and service plan will be added to your income. You will also receive a monthly cash allowance to cover the taxes on the imputed income

associated with the total cost of the device and service plan. (See Question 19 regarding data-only PDAs.)

17. What if the cost of my cell phone or PDA is not included in the monthly service plan costs?

In most cases the cost of the device will be included in the service plan costs. However, if this is not the case, the cost of the handset will be prorated over the life your service contract or treated as a one-time cost if the contract is month-to-month. In either event, you will receive a cash allowance reimbursing you for the taxes on the imputed income related to the cost of the device. If the device was purchased prior to the implementation of the new policy on June 1, 2009, it will be excluded from the imputed income and cash allowance you receive.

18. How about accessories like a Bluetooth, batteries, etc.?

There has to be a business reason for the purchase of any accessories. Keep in mind that the use of hands-free devices while driving is not permitted under existing policy, which will remain in effect under the new policy. Any accessories, including batteries, that are needed to operate the phone for business purposes may be approved by your department. The cost of these accessories will be included in the imputed income and cash allowance that you receive.

19. Does the new policy cover data-only contracts for PDAs, 911 only calls, pagers, or other devices where no outgoing calls can be made?

Communications devices that do not have a cell phone calling capability such as “push-to-talk” devices, walkie-talkies, pagers, and similar devices are excluded from the new policy. PDAs with a data-only capability are also excluded from the policy. Employees who receive devices excluded under the policy are not subject to imputed income or eligible for a cash allowance.

20. What happens after I am approved for a cell phone or cell phone-enabled PDA?

The imputed income and cash allowance will be added to your earnings on your next regular pay day, subject to payroll deadlines. The imputed income and cash allowance will remain in effect until your contract is renewed or canceled. If you renew your contract, or contract with a new carrier, your imputed income and monthly allowance will be adjusted to reflect the cost of your new plan. If your contract is month-to-month, the

imputed income and cash allowance will remain in effect until you return your phone to your department.

21. If I have to travel to another country for business, will I be reimbursed for the cost to upgrade my phone?

Yes. If you need to purchase additional coverage for a business trip overseas, you may be reimbursed for this expense when you submit your travel expense voucher for payment.

22. Will the imputed income and cash allowance be included in my income for calculating my retirement or other benefits?

No. The imputed income and cash allowance will not be included in your compensation for purposes of determining University retirement coverage or other benefits.

23. Are there any exceptions to the imputed income/cash allowance policy?

At the discretion of your campus, certain employees or groups of employees may be exempted from the policy due to operational considerations or other factors. Such exceptions might include employees who are required to share a cell phone while on duty and research personnel who use cell phones as data-collection devices for research purposes. In cases where an exception is approved, however, the employee would be required to document the business use of the phone and timely reimburse the University for any personal calls made using the device.

24. What if I decide I no longer need a cell phone? Can I give my phone back?

Yes. The University will make every effort to accommodate employees who want to return their cell phones or cell phone-enabled PDAs. If you no longer need a phone or PDA for business purposes or if you simply decide you do not want to retain your phone or PDA, you may return this equipment to your department.

25. I am a supervisor, how do I know which is the appropriate plan for an employee?

The plan selected must reflect the number of minutes needed by the employee for *business* purposes. Once a plan has been purchased, departments must also review the monthly cell phone statements to

confirm that the business use of the phone is appropriate for the number of minutes included under the plan.

- 26. What if the employee is subject to OASDI during the first part of the year but then goes over the wage limit, should his or her allowance be grossed up for OASDI anyway?**

No. If the employee is in a salary range that we know in advance will exceed the OASDI wage limit, then his or her allowance should not be grossed up to include OASDI for any pay period during the calendar year. It would not be appropriate to gross up the allowance for OASDI if the employee will exceed the wage limit anyway based on his or her normal earnings.

- 27. What if the employee's earnings are normally under the OASDI wage limit but the cell phone imputed income and cash allowance causes him or her to exceed the limit? Should the allowance be grossed up for OASDI?**

Yes. The allowance should be grossed up for OASDI if the employee's regular earnings will not exceed the wage limit.

- 28. Has the IRS published any guidelines that outline their position on cell phone taxation?**

Yes. The IRS website includes additional information on employer-provided cell phones. You find this information at the following address: <http://www.irs.gov/govt/fslg/article/0,,id=167154,00.html>