

Taxation of Volunteers' Benefits

Compiled from resources from the Nonprofit Risk Management Center, Washington, DC and the Internal Revenue Service

General Tax Rules

Federal and state taxing authorities will insist upon their share of almost any compensation you give to your volunteers. In general, for tax purposes, you must treat payments to volunteers the same as payments to employees. Consequently, absent an exception from federal or state tax laws, you must withhold income taxes and FICA (Social Security and Medicare) contributions from the compensation you pay your volunteers. Living allowances, stipends, post-service benefits, and in-kind benefits are usually treated like wages.

The Internal Revenue Code contains a number of exceptions that exclude some items from tax. In addition, some federally funded programs provide exceptions in their legislation. Moreover, although volunteers may receive a taxable benefit, some may not earn enough during the year of service to owe any income tax. For example, although your program may award volunteers a \$1,000 taxable living allowance, if these volunteers have no other earnings for the year, they escape income tax, since their income will be less than the minimum taxable amount. FICA must still be paid, however.

The volunteer's portion of the Social Security tax, which is withheld from their salary and wages during 2017, will be 6.2%. (Unchanged from 2016). The employer's portion of the Social Security tax in 2017 also remains at 6.2% of each volunteer's taxable earnings.

In addition to the Social Security tax, the volunteer must have withholdings for the Medicare tax of 1.45% of every dollar of salary or wages. The employer must also pay a Medicare tax of 1.45% on every dollar of every volunteer's salary or wages. Hence, the combined Medicare tax for 2017 remains at 2.9% on all volunteers' earnings.

State tax rules generally follow the Internal Revenue Code with respect to definitions of "taxable income" and withholding requirements. (Many states start with the federal rules and merely add several modifications in the computation of the tax due.) Because state tax codes are not standardized, some may contain applicable exceptions that are beyond the scope of this article. Please contact your state for further information.

Living Allowances, Stipends and Other Payments during Service

To the extent living allowances, stipends and other forms of cash awards constitute "compensation for services," they are taxable under the Internal Revenue Code and subject to FICA withholding just as if they were wages paid to employees. The IRS taxes income, and these cash awards are a form of income. The FICA tax is a bit narrower, but the definition of "wages" used for FICA is broad enough to include living allowances, and most other forms of compensation for services.

Non-Cash Benefits

In-kind benefits, such as meals, lodging, and health insurance are subject to special tax rules. Although the IRS treats many in-kind benefits as taxable compensation, exceptions apply to most non-cash benefits volunteers typically receive.

Meals and lodging are exempt if they meet the following tests.

Meals: Provided for the convenience of the program; and, Served on the program premises or work-site (not in a restaurant).

Lodging: Provided to recipients who are required to accept the lodging as a condition of their service to enable them to better perform their duties.

If your program satisfies these rules, the value of meals and lodging is not taxed. Housing must be provided to further the purpose of the program rather than merely to provide shelter. Meals should be served at program sites or facilities. Feeding volunteers at restaurants could turn each meal into taxable income.

Health and accident insurance coverage can generally be provided tax-free. Child care is not subject to tax if it meets certain IRS guidelines.

Inexpensive items may be excludable from income as *de minimis* fringe benefits. This imprecise exception encompasses items such as holiday gifts, coffee and doughnuts, soft drinks, local telephone calls, and use of the copy machine. The more expensive the item, the less likely it is to qualify as *de minimis*, especially if given more than once.

In-kind benefits that do not qualify for a tax exemption must be assigned a dollar value for tax purposes. You will be responsible for determining the fair market value of the goods distributed and for withholding the tax from the volunteers' living allowance or other cash income. Generally, the fair market value of a benefit is the amount an individual would have to pay for the item at a local store or restaurant.

Reimbursements

Reimbursements to volunteers are taxable to the same extent as reimbursements to employees. Only if the expense qualifies as a tax deduction for an employee does it avoid tax. While reimbursements for ordinary living expenses like food, clothing and commuting to and from home *are* generally taxable income, an exception is allowed if an individual is traveling away from home on temporary assignment for the program (which is usually the case for Catholic Volunteer Network-affiliated programs). The IRS has consistently ruled assignments of one year or less to be temporary.

The information included in this article is intended as a general overview of the law and does not constitute legal or financial advice or opinion. The information is not intended to address specific factual situations or individual problems or issues. You are encouraged to seek professional legal or financial advice before making any decision based on the topics discussed in this article.