UNIVERSITY TAX SERVICES

STANDARD OPERATING PROCEDURE

TSOP NO:	3.04
SUBJECT:	**Complimentary Tickets Tax Implications**
SOURCE:	University Tax Services
ORIGINAL DATE OF ISSUE:	3/6/2017
DATE OF LAST REVISION:	5/10/2017
RATIONALE:	This TSOP provides IU units and departments who give, or receive, complimentary tickets with a basic understanding of the tax implications for tickets and the exclusions available under Internal Revenue Service (IRS) regulations. Based on current IRS regulations, the following guidance establishes a hierarchy by which certain IRS exclusions should be applied and under what conditions. An initial consultation should be conducted between the unit and University Tax Services (UTS) for documentation, and the unit is responsible for contacting UTS for subsequent changes to the original set of facts and circumstances. The unit is responsible for maintaining specific documentation for the exclusions and is also responsible for reporting taxable events (based on the guidelines below) to UTS for reporting. The unit should also contact UTS with any questions or concerns to ensure compliance with IRS regulations. Please see below for an explanation of these exclusions. In general, all non-cash fringe benefits (such as complimentary tickets) are considered taxable events (income) to employees, per the IRS, under IRC §61, unless a statutory exclusion exists. There are three distinct exclusions by which tickets provided to <u>employees</u> may be exempt from taxable income. Exclusions should be evaluated in the following order: 1. No-Additional Cost Service 2. Working Condition Fringe Benefit 3. De Minimis Fringe Benefit Also, all non-cash fringe benefits (such as complimentary tickets) are considered taxable events (income) to non-employees and students, unless a statutory exclusions exists. See TSOPs – Payroll for more information.
PROCEDURES:	STEP 1: **Contact University Tax Services at taxpayer@iu.edu to discuss potential exclusions specific to the complimentary tickets provided by your unit/department.** STEP 2:

Once exclusions are reviewed by Tax, the unit will be expected to maintain/obtain a complete listing of all complimentary tickets provided to employees for the reporting period [November 1st - October 31st], that do not meet the de minimis criteria (Exclusion 3 below). Include date, # of tickets provided and business reason (if applicable).

Note that IU has elected an alternate IRS reporting period from October 31st – November 1st.For example, this means if a ticket was provided to an employee on September 7th, 2016, and considered taxable, the ticket would be reported on the 2016 Form W-2. Alternatively, if a taxable ticket was provided on November 21st, 2016, the ticket would be reported on the 2017 Form W-2.This listing should be reviewed for completeness, reasonableness and taxability on an annual basis by the fiscal officer/responsible person.

A sample spreadsheet is listed below of how the tickets could be tracked at the department level. For a copy of this template, please email taxpayer@iu.edu.

General Information					IRS Exclusions				
Name	**Employee ID**	**Event**	**# of tickets**	**Total Cost**	**No-Additional Cost**	**Working Condition Fringe**	**No Exclusion Applied**	**Report to Tax?**	**Date Sent to Tax**
John Doe	000000123	A Midsummer Night's Dream	3	$ 90.00	x			No	N/A
Jane Doe	000000456	A Cappella Tournament	10	$ 250.00			x	Yes	3/1/2017
Anna Doe	000000056	Pride & Prejudice	2	$ 50.00		x		No	N/A

UTS recommends maintaining documentation for a minimum 5 years before destruction of records per retention policies set forth by IU.

EXCLUSION 1:

NO-ADDITIONAL COST SERVICE – IRC § 1.132-2(A):

Explanation:

This exclusion applies if the event/show is **not** sold out and **no revenue was lost** in the course of providing the tickets to employees. This means the show/event was assumed to be NOT sold out prior to providing the tickets and can be substantiated. These tickets should be provided on a non-discriminatory basis. For example, tickets could be offered to all IU employees or to a specific group of employees, such as all employees of the Theatre Department. Tickets can be used by the employee, spouse or dependents, assuming the 'no revenue lost' provision is met. If the tickets were provided prior and the show/event did sell-out, these tickets could be considered taxable and should be flagged on the listing. Please see next exclusion.

Example:

Theatre & Drama is putting on a production of William Shakespeare's, "A Midsummer Night's Dream". Over the last 5 years, Shakespeare productions have averaged 15-20 unsold seats. As such, 15 tickets are provided on a first come, first serve basis to Theatre employees, or all IU employees. These tickets may be used by the employees, spouses and/or dependents and not be considered taxable. Exceptions to this usage should be flagged for further review.

EXCLUSION 2:

	WORKING CONDITION FRINGE BENEFIT – IRC § 1.132-5: Explanation: Under this exclusion, benefits provided to employees in the course of an employee performing his or her job are considered non-taxable. This exclusion applies to the extent that the employee could "deduct the cost of the benefit as a business expense if he or she had paid for the event". This exclusion would most likely apply to those who are expected to attend events to interface with potential donors, students, employees, alumni, etc. This requirement does not necessarily need to be outlined as part of the employee's job description but should be documented by the unit Fiscal Officer/responsible person. Tickets provided that do not meet the first exclusion and the second exclusion should be flagged for a final review of the third exclusion listed below. Example: A soccer coach in the Athletics department attends a basketball sporting event. The expectation is that the coach will attend to interface with students, alumni and potential donors who are attending the basketball game. Although this soccer coach is not required to attend basketball games as part of his position as a soccer coach, the ticket in this case would not be considered taxable since the coach is expected to attend other IU Athletics events and represent IU Athletics as a whole. Exceptions to this usage should be flagged for further review. EXCLUSION 3: DE MINIMIS FRINGE BENEFIT – IRC § 1.132-6 AND § 1.132-(E)1: Explanation: This exclusion must be reviewed by Tax if the other exclusions above are not applicable. Under this exclusion, the value of the tickets may be excluded as de minimis, thus not taxable, if the following 3 criteria are met: 1. The benefit has so little value to the individual, taking into account how frequently similar benefits are provided, 2. The fair market value of the property to be reported (tickets) would be unreasonable or administratively impracticable to require reporting or withholding, 3. The fringe is provided on an infrequent basis.
DEFINITIONS:	UTS: University Tax Services IRS: Internal Revenue Services
CROSS REFERENCES:	TSOP 5.03 - Tax Withholding for Fringe Benefits