

Understanding Fringe and Employment Tax Exemptions

What is fringe?

- Fringe encompasses the required employer-related taxes and fees, otherwise known as employment taxes. Please see the fringe breakdown below. Fringe is the employer's cost of being an employer. Fringe is reflected on the participant budget as a separate line item identified as 'tax' and is in place for every payroll-paid service.

Fringe Breakdown			
Employer fee contributing to fringe	What does the fee cover for the employer?	What percent of fringe (14%) is made up of this fee?	Can employers be exempt?
FICA	Social Security and Medicare	7.65%	Yes, under special circumstances.*
FUTA/SUTA	Federal and State unemployment tax	0.85%	Yes, under special circumstances.*
WC	Workers' compensation insurance coverage	5.5%	Only if they provide the coverage themselves.

* Please note: For special circumstances, please reference new hire form titled 'Special Tax Exemptions' linked below.
** Please note: Fringe fees are charged only to taxable wage line items paid by the payroll process.

Employees exempt from employment taxes:

- The [Special Tax Exemptions](#) new hire form (pages 1-2) guides employees through the various exempt scenarios detailing employee and employer employment tax exemptions which are based on an employee's qualifying familial relationship with the employer. These exemptions are MANDATORY because they impact the employer as well. If an employee is exempt, then the employer is exempt.
- Please note that employment taxes are NOT income taxes. If an employee is exempt from employment taxes, that does not equate to being exempt from federal, state or local income tax.
- If an employee is exempt from paying employment taxes, that means they are not paying into federal and state benefit programs such as social security, Medicare, and unemployment. Exempt employees need to be aware that their access to such benefits may be impacted by their lack of contribution.
- The [IRS Publication 926](#) is a resource that provides more information regarding applicable employment tax exemptions.



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How exemptions impact fringe:

- Unless ALL EMPLOYEES will be employment tax exempt for the entire budget year, please budget 14% fringe to cover employer-related taxes and fees.
- If all employees will be exempt for the entire budget year based on the new hire documentation submitted, 5.5% fringe will be sufficient to cover workers' comp insurance for the employer.

Fringe credits:

- A fringe credit is simply the difference between 14% (standard fringe billed monthly to all accounts) and the actual cost of fringe for an employer. If the employer isn't exempt from fringe, then there will be no credit. If the employer is exempt for prior payrolls, then we credit back the difference.
- Each wage line item has a fringe (taxes) line item associated with it, which is billed 14% taxes on each payroll. The fringe credit will reflect on the same budget line item of the original fringe billing. Fringe credits, when applicable, will occur on a quarterly basis according to this schedule.

Quarterly Fringe Credit Schedule		
Payroll Months	Date of statement credit in detail listing	When can you see the fringe credit applied? *
July, Aug, Sept	October	11/15
Oct, Nov, Dec	January	2/15
Jan, Feb, Mar	April	5/15
April, May, June	July	8/15
* Statement issue date		

A final word:

- Federal and state taxation rules change frequently. Employees may elect to consult with a tax advisor to assess the impact of these rules on their taxes.
- If employees discover that their tax situation has changed during the year, they may submit a revised W-4 and/or MW507 for withholding adjustments on future pay. The most current versions of these documents can be located on our [FMS web page](#).

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