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<b>SECTION:</b>	General University Policies and Services	Number:	[NUMBER]
<b>SUBJECT:</b>	Employee Use of Mobile Communication Technology Equipment	Revised:	[DATE]
<b>APPLIES TO:</b>	Employees	Date Issued:	[DATE]
<b>ISSUED BY:</b>	Associate Vice President of Finance	Attachment(s)	[NUMBER]

## I. Overview

As a means to further its mission the University provides employees with the necessary technological support to allow them to perform their responsibilities to the best of their abilities. This support includes mobile technology tools such as cell phones, pagers, walkie talkies, PDA's, home internet connections, home computers, office computers, office phones, and so on. However, the Internal Revenue Service (IRS) is increasingly concerned about personal use of employer-provided mobile communication devices. This concern may require the IRS to audit this issue "in the field," subjecting the employee to possible invasive inquiries and, in some cases, result in assessments against employees for unexpected tax liabilities that may include back taxes, penalties and interest.

Note that the IRS places a higher tax standard on mobile equipment than office equipment, such as, desk phones and computers since, by its nature, mobile equipment is deemed to be used for personal benefit.

In response, the University has developed a policy that ensures compliance with federal and state tax regulations while protecting employees from unnecessary tax risks.

### A. Purpose

This policy assists the units with reporting taxable income due to the personal use of mobile communication technology equipment by their employees. Such reporting ensures that the University is compliant with the federal and state tax regulations and that it protects its employees from unnecessary tax risks.

### B. Scope

This policy encompasses modern mobile communication technology tools, including, cell phones, pagers, blackberries, TREOs and other smart phones, walkie talkies, laptops, home computers, home internet connections, PDAs, and other similar devices. This list is illustrative, not comprehensive.

### C. Position

To lessen tax risks and administrative burdens for its employees, the University will include into their wages the value of the technology tool and, if applicable, the service contract, provided; the employee does not meet any of the exceptions. The unit is given the discretion to "gross-up" or to cover the employee's payment of the taxes.

### D. Grandfather and Grace Period Provisions

In order to give employees sufficient time, this policy includes a "grandfather clause" for certain property and provides for a "grace period" for related service contracts.

### **1. Grandfather Clause for Technology Equipment**

This policy applies to technology equipment that is issued on or after this policy's effective date. Those technology tools that the employees are currently using before this policy's effective date are excluded.

### **2. Grace Period for Related Service Contracts**

This policy applies to existing service contracts and those entered into after the effective date. However, units are given the flexibility to phase-in the existing contracts over the next 12 months, based on administrative practicality. For instance, the unit may bring all of its current service contracts within the scope of this policy on the first day of the new fiscal year or as the contracts renew. Any and all contracts, however, are subject to this policy no later than 12 months from the date of this policy.

## **E. Responsibilities**

The unit's responsibilities are three-fold:

1. Ensure that use of the equipment is for conducting official University business [refer to *Validation of University Purposes*, below.
2. Fund the equipment using either the "allowance" or the "purchase" method [refer to *Funding Mechanisms*, below.
3. Report to the Payroll department the value of the equipment and any related contract services as wages to the employee unless an exception is met [refer to *Exceptions from Taxation of the Employee*, below.

Any exceptions require the unit to complete the Tax Certification form.

## **II. Validation of University Purposes**

The unit must ensure that the use of the equipment is for conducting official University business. Such use must contribute to and further the educational mission of the University and the administrative purposes of the unit. This use must be evidenced by appropriate documentation, such as a job description, list of responsibilities, performance reviews, and so on.

Examples include the following:

### **A. Travel**

Employees who frequently travel or are out of the office and need to be in contact with employees, clients, managers, or other University business associates.

### **B. Work Location**

Employees who typically work in the field or at job sites where access to electronic and telecommunication devices is not readily available.

### **C. Emergency Response**

Employees who need to be contacted and/or respond in the event of an emergency or are required to be available during non-business hours.

### **D. Other**

Employees who are required as part of their daily responsibilities to be accessible by electronic means at all times.

### III. Funding Mechanisms

Based on purchasing preferences and existing strategic contracts, the unit is given the choice to either give the employee an allowance to cover the anticipated costs, also known as “the allowance method,” or to manage the expenses internally, “the purchase method”.

#### A. Choosing the Appropriate Method

Note that when purchasing the equipment the employee or unit should seek cost-effective products, such as flat rate, fixed charges, mega minutes, and other discounted service plans. Cellular phone contracts and other similar tools should be selected to reflect the level of expected business need (for example, number of minutes per month).

##### 1. The Allowance Method

The unit gives an allowance or stipend to the employee who, in turn, purchases and, if needed, arranges for the related service contract.

The unit may choose this method when the University does not receive a price advantage if these tools are purchased directly through existing strategic contracts, or when, with the unit’s consent, the employee prefers to make upgrades to the standardized equipment with the assumption that the employee will pay for these upgrades.

The unit should provide the necessary product and platform standards by which to use the equipment.

As an accommodation, the employee may use the information provided by Procurement Services (below) in making the best purchase.

##### 2. The Purchase Method

The unit makes the purchase and, if necessary, the related service contract arrangements.

The unit may choose this method when the University receives a price advantage if these tools are purchased directly, or the unit requires the use of standardized equipment.

Also, this method is recommended when it is in the unit’s best interest to retain ownership of the equipment for security reasons, or the employee is not likely to use this equipment for the useful life of the asset and it could be reissued to another employee.

Procurement Services has negotiated pricing which is available for personal purchases. Additionally, the Mcard site also provides a listing of local vendors who offers discounts to University of Michigan employees. The website addresses are provided below:

[http://www.procurement.umich.edu/ucontracts\\_list.php](http://www.procurement.umich.edu/ucontracts_list.php)

<http://www.mcard.umich.edu/discountsfacultycomputers.htm>

#### B. Reporting the Transaction to the Payroll Department

##### 1. Allowance Method

The unit should treat the allowance as additional compensation to process the payment. The HR administrator in the unit must complete the Change Submittal Form – Additional Pay.

The unit should provide the amount of the allowance per pay period and the duration of the allowance, using TTA Earnings Code (Technology Equip Allowance).

For instance, a \$1,200 allowance for a home internet connection which includes the cost of installation that is paid to an IT employee on a monthly basis over the next two years should be reported as an amount of \$50 per pay period for a duration of 24 months (\$1,200 divided by 24 months). This amount is increased if it includes the “gross-up”.

## **2. Purchase Method**

Unlike the allowance method, the unit pays for the use of the equipment, and, thereby, must report the value of the equipment and any related service as wages to the employee.

Note that no reporting is necessary if the employee meets one of the exceptions (refer to *Exceptions from Taxation for the Employee*, below) and properly completes the Tax Certification form.

After making the purchase, the unit is in the position to either (i) transfer ownership of the equipment to the employee or (ii) to lease it to him or her. The transfer is preferred when it reduces the administrative burdens, such as with low-cost equipment, whereas the lease arrangement is preferred when the employee is expected to return the equipment or for security reasons. However, either option is available to the unit with respect to any type of equipment.

### **a) Transfer of Ownership**

The unit should use the Change Submittal Form – Additional Pay as with the allowance method and pro-rate this “imputed” value per pay period based on the duration of the equipment’s use. Imputed value is computed as: total cost of the equipment plus (if applicable) the related service contract divided by the duration. The duration is defined as either the term of the service contract or five years, whichever is shorter.

The earnings code is TTV – Technology Equip Imputed Value.

### **Example**

A \$1,200 cell phone package that includes the cost of the phone to be used over the next two years should be reported as an amount of \$50 per pay period for a duration of 24 months ( $\$1,200 \div 24 = \$50$ ).

### **b) Lease of the Equipment**

At its discretion, the unit may reduce the taxable value to the employee when it leases the use of the equipment to the employee since leases are valued to be less than outright ownership. Specifically, the lease arrangement arises when the University continues to own the equipment for security reasons or when it is understood that the employee is required to return the equipment upon termination of business need or employment. The value of the lease is deemed to be 80% of the purchase price of the equipment.

### **Example**

A \$750 laptop that is leased to an employee should be reported as \$10 per pay period for a duration of 60 months ( $\$750 \times 80\% = \$600$  divided by 5 years or 60 months). Note that the duration period is five years since there is no service contract with regards to laptops.

Under this purchase method, the unit must include on a separate form any additional costs incurred on behalf of the employee after initially submitting the Payroll form, such as payments for excess minutes on a cell phone package.

## IV. Exceptions from Taxation for the Employee (Purchase Method Only)

The unit that uses the purchase method does not need to report the value of these tools to the Payroll Department if one of the exceptions is met. The unit must properly complete the Tax Certification form ([click here for access to the form](#)) and keep it as part of its files for four years from the date of this form.

The exceptions include the following:

### A. Certain Types of Equipment

- pooled cell phones,
- pooled laptops,
- other pooled equipment, and
- pagers.

Pooled equipment is defined as property that is not assigned to an employee and is not used by him or her for 30 or more consecutive days.

### B. Certain Types of Positions

- Police and other employees who are vital to the safety and welfare of the community
- Physicians, nurses and other employees who work in the emergency room
- On-call physicians

### C. Incidental and *De Minimis* Personal Use

#### 1. For all mobile technology equipment

An employee who limits his or her personal use to “incidental” use may exclude the value of the equipment and service contract from taxation.

“Incidental” use is defined as (i) use that does not interfere with the performance of official duties or reduce the work productivity, and (ii) does not result in additional expense to the University. Examples include using small amounts of electricity, printing out a few pages of material, infrequently sending personal e-mail messages and limited use of the Internet for personal reasons.

#### 2. For Cell Phones and Other Technology That Indicates or Tracks Personal Use by Phone Numbers

The employee must meet the *de minimis* standard in addition to ‘incidental’ use.

*De minimis* is defined as personal use of the equipment for an hour or less per month or 12 hours or less per year on average.

The employee who meets the *de minimis* exception must identify the calls for personal use by obtaining copies of the monthly statements from the unit administrator, and is responsible to keep these statements in his or her files for four years from the date of this form.

#### **D. Definition of Personal Use**

Personal use is defined as any use of mobile communication technology equipment that does not further the educational and charitable mission of the University.

##### **Examples**

- **Personal Use:** A cell phone call with a friend about the upcoming Michigan football game.
- **Not Personal use:** A comment about the game while discussing University business matters with another employee, client, customer, or other person.

Personal use *does not include* emergency or exigent use, such as arranging family and personal schedules or making medically related and other reasonable calls during the workday that cannot be done at another time and cannot be made without use of these business tools. Such use, however, should be brief and minimal.

Employees may not use University resources to pursue commercial business activities of profit-making ventures for themselves or anyone else and are subject to possible disciplinary actions.

## **V. References:**

SPG 512.2 – Personal Long-Distance Use of Phones, Cellular Phones, and Facsimiles

SPG 512.3 – Telephones in Private Residences

SPG 520.1 – Acquisition, Use and Disposition of Property

SPG 601.7 – Proper Use of Information Resources, Information Technology, and Networks at the University of Michigan

SPG 601.11 – Privacy and the Need to Monitor and Access Records