

## Harvey Mudd College

### Allowance for Business Use of Personal Cell Phone and/or Internet Service (DSL or Cable Modem-Broadband Access)

#### Notice

This policy is effective as of March 1, 2006 and supersedes previous policies and guidelines regarding cell phones.

#### Tax Issues

The use of cell phones has increased significantly in recent years, both at HMC and at other institutions. Perhaps because of the intermediate sanctions (excess benefit) legislation enacted several years ago, the IRS, in recent investigations, has closely scrutinized the treatment of personal use of employer-provided equipment and services, such as cell phones and automobiles.

The IRS requires that a log, which records every call and its business purpose that is made or received on an employer-provided cell phone, be kept by the cell phone holder.

Maintaining a log is very time consuming and the cost may outweigh the benefit.

Consequently, after much discussion and analysis concerning how to address these tax issues, it has been determined that the College will no longer: 1) purchase cell phones, 2) pay vendors directly for monthly service, or 3) reimburse employees for monthly service or for purchases of related equipment. Rather, for authorized individuals, the College **will provide a taxable monthly allowance** for cell phone and/or Internet use and may provide a one-time taxable equipment purchase allowance.

Although the allowance is taxable, it is believed that the benefits to the employee outweigh the costs. The benefits include: 1) a log is not required, 2) no monthly reporting is required, 3) phones may be used for personal calls and be combined or enhanced with other personal plans.

#### Administration of Allowance

If a supervisor deems it appropriate for a subordinate to receive a cell phone allowance, the supervisor is to provide written authorization (e.g. email) to the Business Affairs Office, indicating the amount of the allowance and the amount, if any, of a one-time equipment purchase allowance. Please note that the amount must be within the limits established below. If a greater allowance is needed, it will need to be approved by the VP for Administration and Finance/Treasurer or the President of the College. **Also, both allowances must be covered by the department's budget. Although the limits may vary, all allowances are considered taxable, without exception.**

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Effective March 1, 2006

### **Limits:**

- 1) Monthly cell phone allowances may be between \$20 and \$60 per month.
- 2) Monthly cell phone Internet/data connection - On rare occasions, a supervisor may determine that, given an employee's responsibilities, a cell phone Internet/data connection monthly allowance between \$15 and \$40 per month will also be provided (in addition to the monthly cell phone allowance).
- 3) The supervisor may authorize a one time cell phone equipment allowance of an amount between \$50 - \$400.
- 4) The supervisor may authorize a DSL or Cable Modem-Broadband access monthly allowance of between \$20 and \$60 per month.

In making this determination, a supervisor should use personal discretion, knowledge of the employee's duties, and budget considerations to determine the amount of the allowance to be provided to each authorized employee.

### Direct Payments by the College to a Vendor for Cell Phone or Internet Service

The College will no longer provide direct payments to a vendor for the purchase of equipment or monthly cell phone or Internet service for an employee. Additionally, the College will not enter into contracts with vendors for employee use of cell phones or Internet service. Given that a taxable allowance will now be provided for monthly service fees, the employee will be the direct holder of a contract with the cell phone company and/or Internet service provider.

**Effective 3/1/06 use of College *purchase cards*** will no longer be allowed for monthly service cell phone or Internet service fees or for related equipment purchases. The cards will be blocked from paying any type of cell phone vendor or Internet service provider.

The College currently holds a few contracts with vendors for employee-used cell phone service and Internet service. It is our goal to transition these contracts from HMC to the employee and to begin the taxable monthly allowance as soon as possible. However, with certain vendors, it may be necessary to wait until the contract period has expired. The Assistant VP, Finance and Budget will assist individuals in the transition.

For those employees who currently have contracts directly with a vendor and are seeking reimbursement from the college, **the taxable allowance will commence 3/1/06.**

### One Allowance Per Employee

The College will provide only one allowance. Each employee authorized to have access to a cell phone for work purposes is to apply for his or her own allowance. (Example – Given the taxability of the allowance, Supervisor A cannot enter in a cell phone contract for both himself/herself and subordinate B. If Subordinate B is authorized by Supervisor A to have an allowance, Subordinate B should enter in his/her own contract with a vendor and request from HMC a taxable allowance.)

### Payroll Processing

Once the Business Affairs Office receives the request to initiate an allowance, paperwork will be submitted to the Claremont University Consortium (CUC) Payroll Department to add the allowance to that individual's payroll check. Reminder: appropriate payroll taxes

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on the allowance amount will be withheld from the paycheck, and the amount of the allowance will be included on the individual's year-end W-2.

#### Exceptions

On rare occasions a department makes a phone available for multiple individuals (e.g. students) to use. If a phone is not assigned to a specific individual ("non-assigned phones") and no personal calls are made on these phones, the phones can be used by individuals without using the taxable allowance approach described above. Personal calls should not be made on these "non-assigned phones."

Any exception to the monthly taxable allowance above (including the use of "non-assigned phones by a limited number of departments) must be pre-approved in writing by the Treasurer.

#### Use of College Cell Phone While Driving

In the interest of the safety of our employees and other drivers, Harvey Mudd College requires employees to comply with all applicable laws while driving.

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