

## **Payroll Inclusions and Exclusions**

Payroll means money or substitutes for money

### **1. Includes:**

- a. Wages or salaries (including retroactive wages or salaries).
- b. Total cash received by an employee for commissions and draws against commissions.
- c. Bonuses including stock bonus plans. (Refer to [Rule 2-D-3](#).)
- d. Extra pay for overtime work except as provided in [Rule 2-C-2](#).
- e. Pay for holidays, vacations, or periods of sickness. (Refer to [Rule 2-G-3](#) for allocation of payroll for employees subject to more than one [classification code](#).)
- f. Payment by an employer of amounts that would have been withheld from employees to meet statutory obligations for insurance or pension plans such as the Federal Social Security Act or Medicare.
- g. Payment to employees on any basis other than time worked, such as piecework, profit sharing or incentive plans.
- h. Payment or allowances for hand tools or hand-held power tools used by employees in their work or operations for the insured. These tools may be supplied directly by the employee or to the employee through a [third party](#).
- i. The rental value of an apartment or house provided to an employee based on comparable accommodations.
- j. The value of lodging, other than an apartment or house received by an employee as part of their pay to the extent shown in the insured's records.
- k. The value of meals received by employees as part of their pay to the extent shown in the insured's records.
- l. The value of store certificates, merchandise, credits or any other substitute for money received by employees as part of their pay.
- m. Payments for salary reduction, employee savings plans, retirement or cafeteria plans (IRC 125) that are made through employee-authorized salary reduction from the employee's gross pay.
- n. Davis-Bacon wages or wages from a similar prevailing wage law.
- o. Annuity plans.
- p. Expense reimbursements to employees to the extent that an employer's records do not confirm that the expense was incurred as a valid business expense.

### **Exception:**

When it can be verified that the employee was away from home overnight on the business of the employer, but the employer did not maintain verifiable receipts for incurred expenses, a reasonable expense allowance, limited to a maximum of \$30 per day, is permitted.

- q. Payment for filming of commercials excluding subsequent residuals that are earned by the commercial's participant(s) each time the commercial appears in print or is broadcast.

## 2. Excludes:

- a. Tips or other gratuities received by employees.
- b. Payments by an employer to group insurance or group pension plans for employees, other than those covered by Rule 2-B-1-f and Rule 2-B-1-m.
- c. Payments by an employer into third-party trusts for the Davis-Bacon Act or a similar prevailing wage law provided the pension trust is qualified under IRC Sections 401(a) and 501(a).
- d. The value of special rewards for individual invention or discovery.
- e. Dismissal or severance payments except for time worked or vacation accrued.
- f. Payments for active military duty.
- g. Employee discounts on goods purchased from the employee's employer.
- h. Expense reimbursements to employees to the extent that an employer's records confirm that the expense was incurred as a valid business expense.

Reimbursed expenses and flat expense allowances (except for hand or hand-held power tools) paid to employees may be excluded from the audit only if all three of the following conditions are met:

- (1) The expenses are incurred for the business of the employer
- (2) The amount of each employee's expense payments or allowances are shown separately in the records of the employer
- (3) The amount of each employee's expense reimbursement is a fair estimate of the actual expenses incurred by the employee in the conduct of his/her work

*Refer to **User's Guide** for an example.*

**Note:** When it can be verified that the employee was away from home overnight on the business of the employer, but the employer did not maintain verifiable receipts for incurred expenses, a reasonable expense allowance, limited to a maximum of \$30 per day, is permitted.

- i. Supper money for late work.
- j. Work uniform allowances.
- k. Sick pay paid to an employee by a third party such as an insured's group insurance carrier that is paying disability income benefits to a disabled employee.
- l. Employer-provided perks such as:
  - Use of company-provided automobiles
  - Airplane flights
  - Incentive vacations (e.g., contest winners)
  - Discounts on property or services
  - Club memberships
  - Tickets to entertainment events
- m. Employer contributions to employee benefit plans such as:

- Employee savings plans
- Retirement plans
- Cafeteria plans (IRC 125)

These include contributions made by the employer, at the employer's expense, which are determined by the amount contributed by the employee.