



TOWN OF DEWEY-HUMBOLDT

Subject: *Town Cell Phones –Frequently Asked Questions (FAQs)*

On October, the Town Manager approved AR № 08-01 dealing with taxable fringe benefits. This document is produced to provide answers to frequently asked questions regarding the new procedure on portable communication devices. Employees are encouraged to read the new Administrative Regulations in conjunction with this FAQ document.

This FAQ document is divided into five sections. The first section contains general questions about the new procedure. The remaining four sections contain questions relative to each of the four different options available to Programs within the procedure for managing their cell phones.

1. General Questions.

Why do we have a new Cell Phone policy?

Two factors led to the development of the new policy. The first was the fact that cell phones are an increasingly used business tool within our organization and a procedure was needed to ensure that this tool is used in the most productive manner. The second reason was to address compliance with IRS regulations concerning taxable fringe benefits. Communication devices, such as cellular phones and Blackberries, are considered by the IRS to be taxable fringe benefits. The Town needs a uniform approach to ensure compliance with these regulations. The IRS has already made cellular phone use an audit issue for businesses and government institutions, including Towns, across the nation. As a result, procedures similar to ours are being adopted in many governments so they can ensure compliance.

I have used a Town-owned phone (or received a cell phone allowance) for a long time with no problems. Why adopt procedures and changes now?

This has only recently become a focus in IRS audits. The IRS has also begun to focus more of their auditing efforts on governmental entities to determine compliance with fringe benefit tax regulations.

Who decides what option(s) will be used in my Program?

The Town Manager and Program Directors/Supervisors will decide what options will be used in their Program. Programs are encouraged to stick to one option if possible, but more than one option can be used in a Program depending on the different business needs.

Will there be a tax impact to me as a cell phone user?

Possibly, depending on the options chosen by your Program. There will be tax implications to those with Town-issued phones and to those receiving allowances. Employees may wish to consult a personal tax advisor to determine what, if any, tax

deductions they may make for the business use of their cellular phones and/or the impact the new procedure will have on their taxes.

Can I choose not to carry a cell phone at all to avoid the tax impacts?

No. If your Program has determined that your job duties require a cell phone, you must use one.

2. Cellular Allowance.

I hear that the Town can pay me for business use of my personal phone. How does that work?

A monthly payroll allowance is one option that your Program Director/Supervisor may choose. If you are approved for an allowance by your Program Director, you will be paid on a bi-monthly basis for the business use of your personal phone.

Does everyone get compensation for a personally owned cellular phone?

No. You should only receive compensation if your Program Director/Supervisor determines that your job requires that you carry a mobile device and then only in an amount necessary to cover anticipated business usage. Just because someone else with your title or pay grade gets an allowance doesn't mean that you will if your specific duties do not require the use of a cellular phone.

Can I make personal calls on my phone if I am getting a cell phone allowance from the Town?

Yes. Because you own the phone, you are free to use it for personal use. You do not have to reimburse the Town for your personal use. Keep in mind that the time spent on personal calls during work time will be subject to restrictions put in place by your Program. Town policies prohibit excessive use of Town time for personal business.

Is the cell phone allowance taxable?

Yes. The compensation will be included in your taxable income and the Town will withhold taxes from your paycheck on this compensation.

Do I have a choice of cellular providers if I am approved for an allowance?

If business reasons dictate that a specific carrier is preferable, you will be instructed by your Program head and will be required to contract with that provider (e.g. 2-way access). If no business requirement exists, you are free to contract with any cellular provider.

If I am approved by my Program to get an allowance do I have to be qualified by the cellular provider?

Yes. The Town has no influence with a provider to approve you for a cell phone contract. You must meet all contractual terms and conditions of the cellular provider.

How will the cell phone allowance be calculated?

The stipend will be calculated at the difference in cost between the employee's existing plan and the plan having the next increment of minutes plus any features specifically required by the Town in writing. If the employee already has enough minutes, the Town will pay the difference between the next level of minutes and the existing level.

If I elect to have a personal phone in my name, do I qualify for any discount as a Town employee?

Depending on the carrier, you may qualify for a government employee discount. We are currently aware that Sprint/Nextel, Cingular/AT&T, and Verizon offer government employee discounts. Ask your selected carrier if government employee discounts are available. You may be asked to provide proof of your Town employment (e.g. Town photo ID, pay stub, etc.).

If I receive an allowance, will I have to show my cellular telephone bills to my supervisor?

Only when requested to demonstrate that the level of compensation for business use is appropriate. Personal calls may be marked out to ensure privacy. The procedure requires Programs to do this review on an annual basis. However, your Program Director may require you to provide a copy of your current cellular contract or bills at any time during the year.

If I receive an allowance for business use, am I responsible for buying new equipment if my current phone is broken or obsolete?

Yes. The phone is owned by the employee. Employees are responsible for the care and security of their own personal property. Employees are responsible for the purchase of new equipment or repairs to existing equipment.

If I am concerned that I may exceed the minutes in my personal phone plan while I am receiving a Town cellular allowance, can I restrict the number of business calls I make or take?

No. If you are receiving a cellular allowance, you must make your personal phone available for business use. In this situation, you should work with finance to determine whether the amount of the allowance should be increased to allow for sufficient business use. If your potential overage is due to personal use, you need to adjust your service plan to provide for the availability of adequate business minutes.

My personal cellular coverage contract is in my spouse/significant other/etc's. name. Can I still receive an allowance?

Maybe You may receive an allowance if the bill establishes that you own the cell phone or that it is for your use and you are responsible for the cost.

Since this is considered as additional taxable compensation, how does this impact my benefits and withholdings?

Allowances will not constitute an increase to base pay, or other items that are factored on base pay (e.g. overtime, merit increases, etc.). However, it will result in additional taxes and withholdings.

If I am required to carry a cell phone for business purposes, but choose to use my personal cell phone, can I forego the Town allowance altogether?

Yes.

3. Town-Owned Phones.

Are personal calls allowed on my Town-owned phone?

No.

What happens if I damage or lose my Town-owned phone?

Employees are responsible for good care and maintenance of Town-owned cell phones. Employees may be required to pay for any damage done to Town-owned phones due to their negligence, and employees are fully liable to the Town for the full replacement cost of any lost cell phone equipment. Programs may replace Town owned phones at their own cost if the phone was damaged during the regular course of work related duties and the employee was exercising reasonable care.

4. Reimbursements.

I do not use my personal phone regularly for business use, but have used it during emergencies or while traveling on Town business. Is there a procedure for me to recover my costs for this use?

Yes. The procedure is similar to being reimbursed for business miles on your personal automobile. The Town may reimburse you for the actual costs for the minutes for authorized and documented business calls.