



NC3 Pay Type vs. Fringe Benefit Field

Revised November 2017

The NC3 pay type is used for non-cash amounts a district needs to get on an employee's W2. This pay type does not increase the total wages an employee sees on their check or anywhere else; it is non-cash amounts.

An example of a non-cash amount might be if a district gives all of their employees a coat with the school logo on it. That coat is not cash, thus not increasing the employee's check, but according to IRS rules is taxable wages to the employee and must be included on the W2.

Now, whether this is considered a fringe benefit or not, some employers will consider it a fringe, others will not. The W2 instructions are not specific. All they indicate is Fringe amounts must be included in box 1, which they are by default since the NC3 is included in the taxable wages and W2PROC adds the Fringe amount from the 001 record to the taxable wages. The NC3 amounts are not added to the taxable wages by W2PROC.

If the district uses the NC3 pay type, the amount is taxed and is included as taxable wages, but does not increase the employee's check in any fashion. If they enter the amount on the fringe benefit field in the federal tax record, W2PROC will add that amount to the taxable wages and the employee pays the tax as part of their federal and state returns. So, either way, the employee pays the tax. The difference is whether they do it now or later. The one part though that districts may want to be aware of is when they use the fringe benefit field on the 001 record, no Medicare is ever withheld from the amounts and really the amounts should have Medicare withheld. With that in mind, we encourage the use of the NC3 pay type rather than the Fringe Benefit field, just to be sure the right tax is withheld.