

## Explanation of an NC3

### What is an NC3?

An NC3 is a non-cash taxable fringe benefit. 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 NC3 is entered in UPDCAL and is processed through the payroll as a taxable benefit. As it is processed in payroll the NC3 amount is placed on the Tax. Ben. field on the Federal record. On the W2 the NC3 amount is included in the adjusted gross for wages.

The Fringe Benefit field on the Federal record is entered in DEDSCN. It is NOT processed through a payroll, therefore it has NOT been taxed. On the W2 the Fringe Benefit amount is included in the adjusted gross wages just as an NC3. The employee will be taxed on this "fringe benefit" at the time they file their taxes, whereas an NC3 has already been taxed.

Whether something is considered a fringe benefit - 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 readdded to the taxable wages by W2PROC.

If the districts use 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, the 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, it is whether they do it now or later.

When the fringe benefit field is used on the 001 record, no medicare is ever withheld from the amounts and really the amounts should have medicare withheld. With that in mind, you may want to use the NC3 pay type rather than the Fringe field, just to be sure the right tax is withheld. Below are examples and screen shots:

#### W2 prior to NC3:

001 FIT	7,673.38	68,181.31	80,995.00	12,813.69
403(B)	2,250.00			
SECTION 125	2,554.15			
002 OHIO	2,399.18	68,181.31	80,995.00	12,813.69
MEDICARE	1,137.41	78,440.85	80,995.00	

## Manually entering the NC3 amount on the DEDSCN Federal Record:

Calculate option: F	Marital stat: 2	Fringe benefits:	12.00	
Tax percent :	# exemptions:	Life Ins. cost :		
Addt'l withhold :	E-I-C : 0	Adopt. assist. :		
Error adjustment:	Pension plan: A	Dependent care :		
	Move Exp:	Third party pay:		
	Tax. Ben:	Vehicle lease :		
	Accum	QTD Totals	FYTD Totals	YTD Totals
Deduct total :	277.42	1664.52	3858.42	7673.38
Gross pay :	3082.98	18497.88		80995.00
Taxable gross :	2566.78	15400.66		68181.31

## Increases the Taxable Gross by 12.00 on the W2REPT:

001 FIT	7,673.38	68,193.31	81,007.00	12,813.69
FRINGE BENEFITS	12.00			
403 (B)	2,250.00			
SECTION 125	2,554.15			
002 OHIO	2,399.18	68,193.31	81,007.00	12,813.69
MEDICARE	1,137.41	78,440.85	80,995.00	

NC3 entered through payroll (entered in UPDCAL\_\* as NC3):

Work days:				Tx	Retire Reg/	Effectiv
Type	Units	Rate	Amount	Description	Op Ret Hours Spec	Date
NC3	1.00	12.000	12.00	Tax. ben	0.00	00/00/0000

Deduction type - Federal Tax			Name: FIRSTMERIT			
Calculate option: F	Marital stat: 2		Fringe benefits:			
Tax percent :	# exemptions:		Life Ins. cost :			
Addt'l withhold :	E-I-C : 0		Adopt. assist. :			
Error adjustment:	Pension plan: A		Dependent care :			
	Move Exp:		Third party pay:			
	Tax. Ben: 12.00		Vehicle lease :			
	Accum	QTD Totals	FYTD Totals	YTD Totals		
Deduct total :	279.22	1666.32	3860.22	7675.18		
Gross pay :	3094.98	18509.88		81007.00		
Taxable gross :	2578.78	15412.66		68193.31		

001 FIT	7,675.18	68,193.31	81,007.00	12,813.69
TAXABLE BENEFIT	12.00			
403(B)	2,250.00			
SECTION 125	2,554.15			
002 OHIO	2,399.71	68,193.31	81,007.00	12,813.69
MEDICARE	1,137.58	78,452.85	81,007.00	