Taxation of Employer Provided Clothing
September 24, 2019

Introduction and Purpose
The value of benefits provided from an employer to an employee must be included in the taxable income of the employee unless there is an applicable Internal Revenue Code exclusion. The purpose of this guideline is to provide information to help identify when income exclusions may apply to clothing the University of Minnesota gives its employees versus when employer provided clothing or clothing allowances must be reported as taxable income.

What is Employer Provided Clothing and How is it Taxed?

Employer Provided Clothing
For purposes of this TMOG, employer provided clothing exists when the University transfers ownership of clothing to employees. The employee receives control of, or title to, the clothing. If the employee leaves employment, the clothing goes with the employee. When the income exclusions described below do not apply to employer provided clothing, the value of the employer provided clothing must be included in the taxable income of the employee.

University Owned Clothing
When the University purchases clothing for use in University programs and retains ownership of the clothing, it is not considered employer provided clothing. The employee wears the clothing for University related purposes, but title to the clothing remains with the University, so it is not an employee benefit for income tax reporting purposes. There is no tax impact when employees use University owned clothing. For example, when lab coats are required to be worn by employees working in a lab, and the University makes the lab coats available but retains ownership of them, the use of the lab coats by the employee is not considered an employee benefit and is not taxable.

Possible Income Exclusions
The value of clothing provided by an employer to an employee must be included as taxable income of the employee unless there is an applicable income exclusion. Two possible income exclusions could apply when the employer provides clothing:

- De minimis benefit, or
- Clothing not suitable for general wear.
De Minimis Benefit
A **de minimis** benefit of clothing is:

- A benefit so small that accounting for it would be unreasonable or administratively impracticable considering its value and frequency.
- Per University of Minnesota policy, the value must be $100 or less to qualify as de minimis.
- The provision of clothing must be occasional or unusual in frequency to qualify as de minimis.

If the University is keeping track of who receives specific clothing, the de minimis exclusion does not apply because it is apparent that it is not unreasonable or administratively impracticable to account for who is receiving the clothing. When clothing qualifies as de minimis, it is not subject to tax.

An example of a de minimis clothing benefit scenario occurs during Welcome Week each fall. University employees volunteer at 3M Arena at Mariucci during convocation. The volunteers are asked to wear T-shirts designed for Welcome Week. Tables of T-shirts are available in various sizes and each volunteer picks up a T-shirt to wear at convocation and retain after the event. The value of the T-shirts is nominal and the organizers do not keep track of who receives a T-shirt. This is a nontaxable provision of clothing to employees since it qualifies as de minimis.

Not Suitable for General Wear
Clothing is considered **not suitable for general wear** and may be provided by an employer to an employee tax-free when all three of the following provisions are met:

- The clothing is specifically required to be worn as a condition of employment,
- The clothing is not of a type adaptable to general or continued usage to the extent the clothing takes the place of regular clothing, and
- The clothing is not used for general or personal wear.

Just because the employee typically would not wear clothes provided by the employer away from the work place does not mean the clothing is not suitable for general wear. The tax policy behind this treatment is that clothing that can be worn for general wear is a personal expense, so if an employer is providing clothing suitable for general wear, the value of the clothing should be subject to tax. The IRS views protective clothing, such as safety shoes or boots, hard hats, and work gloves required to be worn by an employee as not suitable for general wear. Additionally, because of important public safety concerns, the IRS has concluded that police uniforms are considered safety clothing and not suitable for general wear. Clothing not suitable for general wear can be provided tax-free.

Special Topics
Uniforms
The provision of uniform clothing must be either de minimis, or the clothing must not be suitable for general wear, to be treated as nontaxable. If the de minimis requirements are met, the value of a uniform may be excluded from income. When the de minimis requirements are not met, consider whether a uniform provided by the University is safety clothing.
Uniforms that are required to be worn as a condition of employment, are prohibited from being worn away from work, and meet the safety aspect of the “not suitable for general wear” criteria are not taxable. The University views employee uniforms as safety clothing in situations where:

- There is a security component to the employee’s job duties, or
- There is a need within the University community to identify the employee based on the required uniform, or
- The employee likely will be in restricted areas of University buildings.

An example where a uniform is not considered suitable for general wear is in the University of Minnesota Police Department. The University dictates that police uniforms must be worn while on duty, may not be worn away from the work setting and there is an important public safety aspect to the police wearing the uniforms. Consequently, the provision of police uniforms and other police safety equipment to police officers by the University are not taxable.

**Clothing Allowances**

Clothing allowances provided by the University to employees are generally additional taxable income for the employees. The allowance may be paid using Earnings Code TEC; the allowance then will automatically be included in W-2 reportable income. The allowance also could be set up as a credit, such as with the bookstore, or with a vendor that has a relationship with the University, such as Nike. The dollar amount of the clothing allowance credit must be reported to Payroll Services as taxable income, whether the employee uses the credit or not. This is due to the constructive receipt doctrine that requires that the amount available to the employee, not just the amount used by the employee, be reported as taxable income. See the last section of this TMOG, Reporting to Payroll Services, for information on how to report taxable allowances set up as credits to Payroll Services.

An exception to this tax treatment is a clothing allowance that is restricted to be used exclusively for safety clothing required by the University to be worn for work purposes only. Since the allowance may only be used for protective clothing, the allowance is not taxable. Generally, this type of allowance is set up to be paid as a reimbursement when receipts are provided by the employee for safety clothing/equipment.

**Union Contract Provisions**

Some union contracts describe clothing the University agrees to provide to employees. The union contract provisions may list the amount of clothing an employee will receive each year. To the extent this clothing is not de minimis and is suitable for general wear, the value of this clothing is additional taxable income for employees. Clothing allowances provided pursuant to Union contracts for non-safety clothing are also additional taxable income.
Reporting to Payroll Services
The value of taxable clothing or clothing allowances and credits given to employees must be paid through, or reported to, Payroll Services so the amount is included in the taxable income of the employee recipient. The reportable amount will generally be the cost incurred by the University to purchase the clothing or the amount of the clothing allowance or credit. For taxable employer provided clothing and clothing credits, send information including the employee’s name, employee identification number, a description of the taxable employee benefit and the taxable amount to payforms@umn.edu. Clothing allowances paid using Earnings Code TEC will automatically be included in the employee’s W-2 income.

Contact Tax Management Office
If you have questions relating to this TMOG, please contact the Tax Management Office at taxhelp@umn.edu or 612-624-1053.