

PERSONAL USE OF AN EMPLOYER'S INTERNET CONNECTION

Many church employees have an Internet connection on their office computer. Employees who use the Internet connection for personal purposes are receiving a taxable fringe benefit unless the limited de minimis exception applies (see [“De minimis \(minimal\) fringe benefits” on page](#)). Under this exception, benefits that are so immaterial in value that it would be unreasonable and or administratively impractical to account for them are nontaxable. This exception would apply, for example, to an employee who uses an employer-provided Internet connection for a few minutes each week. It would not apply to employees who use an employer-provided Internet connection several times each week for significant amounts of time.

Internet usage is considered to be a utility expense by the Tax Court and, as a result, is not subject to the strict substantiation rules that apply to listed property. To illustrate, the Tax Court has noted that “Internet expenses are utility expenses. Strict substantiation therefore does not apply, and the Court may . . . estimate petitioners’ deductible expense, provided that the Court has a reasonable basis for making an estimate.”

Nevertheless, to avoid the problems associated with a failure to report taxable fringe benefits as taxable income, especially in the case of employees who are officers or directors (or their relatives), and to avoid the burden of accounting for personal use, a growing number of employers are adopting one of the following two approaches: (1) Characterize a small portion of employees’ compensation as an Internet stipend to cover a reasonable estimate of the value of personal use. This amount is reported as taxable compensation to the employees. (2) Classify the estimated value of the personal Internet usage as an “in kind” taxable benefit.