**Nonprofit Guide to Calculate Fringe Benefits**

To calculate an employee's fringe benefit rate, add up the cost of employer paid fringe benefits for the year (including payroll taxes paid) and divide it by the employee's annual wages or salary. Then, multiply the total by 100 to get the fringe benefit rate percentage.

Example: Fringe benefits cost organization (A) $40,000 with a total payroll of $160,000. $40,000 total benefits costs divided by $160,000 for total payroll costs = .25 x 100 = 25 percent.

**How fringe benefits work**

Fringe benefits are **a form of compensation, often from employers to employees, and are considered compensation for services beyond the employee's normal rate of pay**. They can be made in the form of property, services, cash, or cash equivalents.

Typical Fringe benefits:

1. **Social Security Tax:** the current tax rate for social security is **6.2%** for the employer
2. **Medicare Tax:** the current rate for Medicare is **1.45%** for the employer
3. **Unemployment Insurance:** rate is based on actual personnel turnover at your organization and is typically between 1% and 10%. For the 25% example above, a rate of **1.625%** is used **for this insurance.**
4. **Workers Compensation Insurance:** rate is based on various occupations and other factors. Each state publishes their rates. For this example, **1.25** is used for the rate.
5. **Health, Life, and Disability Insurances:** is based on specific coverages offered by your company and elected by an employee, but in this example, a rate of 9.375% is used.
6. **Retirement:** is based on employer contributions and for this example 5.1% is the rate for this benefit.

6.20% Social Security

1.45% Medicare Tax

1.625% Unemployment Insurance

1.25% Workers Compensation

9.375% Health, Life & Disability

5.10% Retirement

**25% Total**

Important: This example is for the purpose of walking through a potential fringe benefit calculation. Benefits paid by an employer are unique to each company. Work with your accountant or payroll service to develop the actual fringe benefits rate that applies to your organization.