



# GAO Technical Bulletin

Arizona Department of Administration ♦ General Accounting Office

Subject: ***Employee Uniforms*** Issued: 01/01/07  
***Policy and Procedure Guidelines***  
Manual Section: N/A Effective: 01/01/07  
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TO: Technical Bulletin Administrators FROM: D. Clark Partridge  
All Agencies State Comptroller

## **AUTHORITY**

26USC162 Trade or business expenses  
26CFR1.62-2 Reimbursements and other expense allowance arrangements  
A.R.S. § 41-761 Personnel administration  
A.R.S. § 41-783 Personnel rules  
A.A.C. R-2-5-303.A.2 Salary Administration

Internal Revenue Regulation 31.3401(a)-1(b)(5)  
Revenue Rulings 57-143, 70-474, 70-475, 70-476, 72-110, 80-322 et al.  
Internal Revenue Service Letter Ruling 8120036

## **DEFINITIONS**

**Allowable uniform expenses:** Expenses incurred for articles of, insignia affixed to, or the care of clothing such as shirts, pants, shoes, hats, jackets, coats, and belts required for the performance of duties as an employee of the State of Arizona, that cannot be adaptable for general use.

**HR:** Human Resources.

**HRIS:** Human Resource Information Solution. The statewide HR, benefits, and payroll system implemented on December 29, 2003.

**Pay Code:** A code identified in the HRIS to designate the type of earnings an employee will be paid for, such as regular pay, overtime pay, sick pay, holiday pay, etc.

**Uniform allowance:** An advance payment to employees for allowable uniform expenses.

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**INTRODUCTION**

Agency Heads are empowered to perform those acts necessary to pursue the goals of their agencies and to expend such monies necessary to accomplish their agencies' missions. The appropriateness of such expenditures is determined by the Legislature. When, however, such expenditures involve monies disbursed to or for the benefit of personnel, they are subject to Federal and State laws that govern the characterization, legality and taxability of those expenditures.

Compensation paid to employees of the State of Arizona is governed by the Arizona Revised Statutes and the Arizona Administrative Code. Unless otherwise specifically provided, such compensation is treated like wages or salaries and subject to FICA and Medicare taxes as well as federal and state withholding.

The following Policies have been prepared and should be used to assist agency management when considering the implementation of an employee uniform policy.

**POLICY**

- 1) When an employer provides uniforms or pays uniform allowances, Federal tax laws, rulings and regulations stipulate and court decisions uphold that, in order to be considered non-taxable to the employee, the following conditions must be met:
  - a) the uniforms must be required by the employer;
  - b) the uniforms cannot be adaptable for general use.
    - i) the cost of uniforms that are determined to be adaptable for general use will be considered taxable wages to the employee;
  - c) the uniform allowances must qualify as ordinary and necessary business expenses; and
  - d) payments made to employees are provided under an accountable plan.
    - i) In order to be considered as reimbursed under an accountable plan, the expense must meet three requirements: (1) there must be a business connection to the expense; (2) there must be adequate substantiation for the expense; and (3) excess reimbursement amounts must be returned to the employer within a reasonable period of time.
- 2) Uniforms are to be provided only under the terms of a policy and procedure document, published by the adopting agency. Policy and procedure documents must specify:

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- a. that wearing the prescribed uniform, under those circumstances outlined by the policy, is mandatory;
  - b. the characteristics, designs and styles of the uniform or uniforms to be adopted;
  - c. that, except in the case of protective gear or in the case of trade or profession specific clothing, a badge or other distinctive insignia is to be worn as part of or in conjunction with the uniform and that such badge or insignia must clearly identify the wearer as an employee of the State of Arizona;
  - d. those employees, by category, who are required to wear such uniforms;
  - e. those circumstances under which employees are required to wear uniforms;
  - f. that wearing a uniform is prohibited except when the employee is on duty or commuting to or from the work site;
  - g. the method in which the uniforms are to be provided (monthly allowance, uniform rental, reimbursement of expenses, etc.);
  - h. the way in which the uniform policy is to be amended; and
  - i. an approved list of vendors for uniforms and accessories, when an allowance is paid for the purchase and care of uniforms or the agency purchases the uniforms directly.
- 3) State agencies electing to either furnish uniforms, pay employees a uniform allowance or reimburse State employees for uniform expenses must determine which of the following methods will govern their internal policies and procedures:
- a) The agency may establish a uniform allowance that requires no substantiation. The uniform allowance must be input and paid through the HRIS as **taxable** compensation to the employee using Pay Code 601.
  - b) The agency may purchase and pay for the uniforms and care of the uniforms directly through a State contracted vendor.
  - c) The agency may reimburse employees for allowable uniform expenses after receiving receipts for such expenses from the employee.
  - d) The agency may establish a uniform allowance with an accountable plan.

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- i) In order to meet the requirements for substantiation, if the agency elects to establish an accountable plan, all employees receiving a uniform allowance must substantiate allowable uniform expenses by submitting receipts to his or her agency or by submitting an agency developed uniform allowance substantiation form. An agency developed form must be submitted to the GAO for review and approval prior to implementation.
    - (1) The employee must submit substantiation to his or her agency within sixty (60) days following the end of the quarter in which the uniform allowance payment occurred.
    - (2) Amounts paid to the employee in excess of substantiated allowable uniform expenses must be returned to the agency within ninety (90) days following the end of the quarter in which the uniform allowance payment occurred. Amounts paid to the employee in excess of substantiated allowable uniform expenses that are not returned to the agency within this ninety (90) day period will be subject to tax withholding in the HRIS in the subsequent pay period.
    - (3) Agency developed uniform allowance substantiation forms must include all dates, amounts and descriptions of allowable uniform expenses incurred that will allow the agency to identify the specific nature of the expense and to conclude that the expense is attributable to the agency's statutory mission.
  - ii) If the agency establishes an accountable plan, it may establish a uniform allowance to be paid through HRIS as **non-taxable** compensation to the employee using a non-taxable Pay Code. Agencies may contact the GAO for a list of non-taxable uniform allowance Pay Codes in HRIS.
  - iii) An agency electing to establish an accountable plan for uniforms must outline the specific criteria of this plan in its policy and procedure document, which must be submitted to the GAO for review and approval prior to implementation.
  - iv) An agency's accountable plan is subject to periodic audit and review by the GAO. Any audit findings of non-compliance with the policies and procedures as established in this technical bulletin will result in an immediate conversion from an accountable plan to the recording of those payments in the HRIS as taxable compensation to the employee.
- 4) Uniforms should be furnished only under those circumstances in which the benefits far outweigh the costs of providing uniforms. Such circumstances include, but may not be limited to:

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- a. **fostering public safety:** when the employee must be readily identifiable to the public as a figure of authority or when the employee's duties require frequent access to private property in an official capacity;
  - b. **maintaining employee safety:** where the uniform provides a degree of protection not afforded by street wear (i.e. overalls, smocks, safety boots, goggles, etc.);
  - c. **preventing employee hardship:** where the nature of the job soils or destroys clothing considerably faster or to a much greater extent than is occasioned by normal wear and tear; and
  - d. **adhering to professional or trade practices:** where certain types of dress conform to the expectations of society.
5. Except when there are clear and compelling circumstances to the contrary, uniforms should only be provided to those employees whose duties put them in frequent, regular and repetitive contact with the public and the nature of that contact requires the exercise of authority by the State employee.
  6. Uniforms should not be considered for any combination of the following reasons alone:
    - a. to enhance employee or organizational morale or esprit de corps;
    - b. to augment an employee's compensation; or
    - c. to substitute for a normal, common sense dress code or the enforcement of such a code.
  7. Uniform colors and styles should **not** be:
    - a. radical in design or of a style likely to reflect poorly on the State;
    - b. misleading as to the nature of the job;
    - c. suitable for use as street wear; or,
    - d. easily confused with uniforms used for other purposes.
  8. Expenditures for uniforms or uniform allowances shall not be made when such expenditures would, under Federal or State income tax or employment laws, result in additional compensation to the employees with respect to whom such expenditures would be made.

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9. The provision of specialized wearing apparel for infrequent or special circumstances is not prohibited by these policies.

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### **AREAS IMPACTED**

All State agencies.

### **CONTACTS**

If you have any questions regarding this Technical Bulletin, please contact your GAO Liaison. You may also e-mail questions or comments concerning State policy and procedure to us at:

[gaopolicy@azdoa.gov](mailto:gaopolicy@azdoa.gov)