Guidelines for Personal Use of Company Vehicles

A Company may provide various fringe benefits to attract and keep good employees. One such benefit is providing a company vehicle. An employee’s use of that vehicle for any personal purpose, including commuting, results in taxable compensation to that employee.

Addition to W-2

The value of the personal use of a company-provided vehicle is included with wages as compensation and reported on the employee’s W-2. In determining personal use, the employer may choose to:

- Report 100% of the value of the vehicle’s use as personal use on Form W-2. Then the employee is responsible for claiming the deduction for the business portion and the employer does not need to maintain records substantiating personal use.
- Report only the personal use portion of the value of the vehicle on Form W-2. To do this, the company must have a written policy regarding personal use of employer-provided vehicles and a way for the employee to report such use to the employer.

Determining W-2 Value

You must use the general valuation rule to determine the value of most fringe benefits. Under this rule, the value of a fringe benefit is its fair market value. The fair market value (FMV) of a fringe benefit is the amount an employee would have to pay a third party in an arm’s length transaction to buy or lease the benefit.

There are three Special Valuation Methods that can be used:

- Annual Lease Value-the vehicle is assigned an annual lease value determined from IRS tables (attached below), based on the fair market value of the vehicle as of the date the first personal use occurs. If the vehicle was purchased, use the vehicle’s cost including tax, title and other purchase expenses. If the vehicle was leased, use one of the following three options:
  - The manufacturers’ suggested retail price less 8%
  - The retail value as reported by nationally recognized publications
  - Manufacturers invoice price plus 4%
After the annual lease value is determined, the employee’s taxable fringe benefit is computed by multiplying the annual lease value by the personal use percentage. In the case of a partial year, the annual value is prorated. If the employer provides fuel, then an additional 5.5 cents per personal-use mile is added to obtain the total taxable benefit.

This method **must be used if** the vehicle qualifies as a luxury automobile (FMV exceeds $15,800 for a passenger automobile or $16,800 for a truck or van) or if the employer elects to treat 100% of the vehicle’s use as personal use.

Once this method is adopted for a vehicle, it must be used for that vehicle for all following periods in which that vehicle is available to any employee, unless it meets the requirements for the commuting valuation method (in which case that method may be used). If the vehicle is still in service after the fourth full calendar year, a new fair market value can be assigned as of January 1 of the fifth year.

This is the method most commonly used.

- **Cents-Per Mile Rule** – determine the value of a vehicle by multiplying the standard mileage rate by the total miles the employee drives the vehicle for personal purposes during the year. This amount is then included in the employee’s W-2. For 2014 the standard mileage rate is 56 cents per mile. This method can be used if the vehicle:
  - does not qualify as a luxury vehicle (FMV exceeds $15,800 for a passenger automobile or $16,800 for a truck or van) **AND**
  - is used at least 50% in the employer’s trade or business **OR**
  - is used to carpool at least 3 employees each workday **OR**
  - is used regularly in the employer’s trade or business **OR**
  - meets the mileage test (must be driven 10,000 miles during the year and vehicle is used primarily by employees).

There are also consistency requirements. However, the Commuting Valuation Method may be used in years in which the vehicle use qualifies.

- **Commuting Valuation Method** – the taxable value of commuting is $1.50 per one-way commute for travel between the employee’s residence and the primary place of work. To use this method, the employer must comply with all of the following:
  - for business reasons, the employer must require the employee to drive the car home **AND**
  - the employer must have a written policy prohibiting employee use of the vehicle for personal purposes other than for commuting or de minimis purposes **AND**
  - the employer must reasonably believe that this policy is being adhered to **AND**
  - the employee must not be a control employee (a board of shareholder appointed office whose pay is >$100,000, a director, an employee whose pay is >$205,000, an employee who owns 1% or more of the company or there is a highly compensated employee alternative).
Notification and Timing
Employers who provide company-owned or leased vehicles to their employees must notify affected employees as to the valuation method used, whether the employer will be withholding income taxes, and the employees’ accounting/reporting requirements by the later of January 31st of the reporting year or within 30 days of when the vehicle is first made available.

Substantiation and Recordkeeping
There are no requirements for substantiation and recordkeeping if:
- The vehicle is a qualified non-personal vehicle (school bus, special utility truck, moving van, etc.) OR
- The employer has a written policy of no personal use of company provided vehicles OR
- The rules under the commuting valuation method are met OR
- The employer treats 100% of the use of the vehicle as personal use.

If none of the above conditions are met, the employer must keep records to substantiate the business use not reported as income to the employee.

The employer should obtain the following information for each vehicle:
- The total number of miles driven during the year
- The percentage of personal use claimed
- Whether the vehicle was used for commuting, and if so, the distance normally commuted
- Whether the vehicle was available for personal use during off-duty hours
- Whether another vehicle was available for personal use
- Whether adequate records or sufficient evidence exists to justify the deduction, and whether or not the evidence is written.

An employer may rely on statements provided by employees regarding their personal use of the company-provided vehicle.

Reporting and Payment of Taxes
Generally, the taxable value of the personal use of company vehicles is subject to federal and state income taxes, social security and Medicare taxes, and federal and state unemployment. The employer may treat the taxable value as paid on a pay-period, quarterly, semi-annual, annual or other basis. An employer may elect to:
- Not withhold income taxes on the personal use value. To do this, they must let their employees know in writing by January 31st of the reporting year or within 30 days of the employee’s receipt of the company vehicle.
- Add the personal use value to an employee’s regular pay and withhold income tax using the regular withholding tables
- Treat the value as a supplemental wage payment and withhold using the supplemental wage rates.

The taxable benefit should be included in all payroll reporting forms.
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<thead>
<tr>
<th>Automobile Fair Market Value ($)</th>
<th>Annual Lease Value ($)</th>
<th>Automobile Fair Market Value ($)</th>
<th>Annual Lease Value ($)</th>
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<td>For Vehicles having a fair market value in excess of $59,999, the annual lease value = (0.25 x the auto’s fair market value) + $500</td>
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The annual lease value determined from the table is adjusted for the percentage of business use to compute the value of personal use of an employer-provided vehicle which the employee must include in income. This value must also be prorated if the automobile is not available to the employee for the entire calendar year.
Worksheet to Calculate Income from 
Personal Use of Vehicle Using Annual Lease Value

EMPLOYEE:

DESCRIPTION OF VEHICLE:

DATE FIRST MADE AVAILABLE TO ANY EMPLOYEE:

DATE FIRST MADE AVAILABLE TO THIS EMPLOYEE:

ANNUAL LEASE VALUE:

Fair Market Value of Vehicle $__________
(to be re-determined at the beginning of
the fifth year and every four years thereafter)

Annual Lease Value per Table $__________

Number of days during the year that vehicle was available X__________

Divide by number of days in tax year /__________

Prorated annual lease value =__________

Personal use percentage (provided by employee) X__________

Personal annual lease value =__________

If fuel is provided by client personal miles X .055 +__________

Personal use taxable income =__________