Cygan Hayes, Ltd.
Certified Public Accountants

Employees Personal Use of Company Vehicles

As the year end approaches, it's time to start thinking about preparing W-2's. One of the more commonly asked questions is "How should employees personal use of company vehicles be treated?" The following is an explanation of the general rules.

Company Vehicle

When an employee uses a company vehicle for any personal use, the employer should value the fringe benefit of the personal use and include that value in the W-2 of the employee as a taxable fringe benefit. Three methods may be used to determine the value of the personal use:

1. **Commuting Method** - The Commuting Method may be used for all vehicles covered by a written policy which allows commuting but prohibits other personal use. This method may not be used if the employee is an officer whose pay is $110,000 or more, a director, an employee whose pay is $220,000 or more, or a more than 1% owner. The Commuting Method values the use of the vehicle at $1.50 per one-way commute for each time the vehicle is used for commuting.

2. **Cents-Per-Mile Method** – The Cents-Per-Mile Method uses a standard mileage rate (54.5 cents for 2018) to determine the value of the personal use of the vehicle. To qualify for this method, the vehicle must (1) be regularly used in the employer's business, (2) be driven at least 10,000 miles per year, primarily by employees, and (3) have a fair market value less than $15,600 for passenger automobiles ($17,600 for trucks and vans placed in service in 2018 (please call us for the applicable limit for vehicle placed in service prior to 2018). Note, if the vehicle is used for less than a full calendar year, the 10,000-mile limitation is reduced proportionately. Also, fuel is assumed to be provided by the employer and is included in the 54.5 cents-per-mile. If the employer does not provide fuel, the value is reduced by no more than 5.5 cents.

   Once this method is used, it must continue to be used unless the vehicle no longer qualifies. Also, this method must have been selected by the date the vehicle is first used for personal purposes. If the vehicle was originally valued under the Annual Lease Value Method (to be discussed next) because it did not qualify for the Cents-Per-Mile Method, the employer may not switch to the Cents-Per Mile Method in later years.

3. **Annual Lease Value Method –** The Annual Lease Value Method (ALV) is the most common method used because of the restrictions placed on the other two methods. The ALV method is a safe-harbor method. This method may only be used for four-wheeled vehicles. **The ALV is calculated by referring to the attached table, see page 5**. The fair market value of the automobile on the date the vehicle was made available for personal use is determined and this amount is used to determine an appropriate ALV from the table. The ALV is then multiplied by the fraction of personal miles driven over total miles driven. This amount is included in the employee's income. The fair market value of the automobile is applicable to a four-year period starting on the date on which the automobile is provided to the employee and ending on December 31 of the fourth full

year following the date. The automobile must be revalued on January 1 of each fifth year for the purposes of determining the ALV for each subsequent four-year period.

Example

On January 1, 2018, ABC Company made a company vehicle available to John. The fair market value of the vehicle on January 1, 2018 was $26,500. John drove the vehicle 36,000 miles during the year. 12,000 of the miles were personal.

Step 1 – Determine the Annual Lease Value
The ALV for a $26,500 vehicle is $7,250 on the attached table. We do not have to prorate the $7,250 since the vehicle was in service for the entire year.

Step 2 – Determine the percentage of personal use
Total personal miles divided by total miles = 33%

Step 3 – Determine the income inclusion amount
Multiply the amount from step 1 by the percentage in step 2. $7,250 x 33% = $2,393.

For this example, the employer will include the $2,393 in the gross income of the employee on Form W-2. If the employer had provided the gas used for personal purposes, the W-2 would also include either the actual personal fuel cost or 5.5 cents per mile times the number of miles driven.

We can provide you a spreadsheet to calculate income for personal use of or we can assist you and calculate the amount for you.

It is advisable for employers to issue a statement of its policy regarding automobile usage to all employees.

Employers may rely on information supplied from the employees as to the business and personal use unless the employer knows that the records are not accurate. The employer must obtain the information from the employee unless (1) the vehicle is not allowed to be used for personal purposes, (2) the only allowable personal use of the vehicle is commuting, or (3) all use of the vehicle is treated as personal to the employee. Otherwise, the employer should obtain sufficient information from the employee regarding personal use. For example, some companies have a standard form they give each employee at year-end asking for total miles, personal miles and the employee's signature **(see attached example on page 4)**.

Employers should withhold income tax on the value of the employee's personal use of the vehicle. The employer may elect not to withhold income tax, although Social Security and Medicare taxes must be withheld from the value of the personal use of the vehicle. For both payroll and withholding purposes, an employer may elect to treat the value of the personal use of the vehicle as being paid at the end of the year. Furthermore, the value of these benefits provided during November and December may consistently be treated as being provided during the subsequent year. This gives you extra time to value the personal use of a company vehicle. The employer should inform all employees in writing of the company's cut-off date for calculating personal use of vehicles and withholding policy by January 31 of each year **(see attached example on page 6)**.

The employer receives a deduction on its tax return for the full depreciation allowance on the automobile as long as the personal use is included in the employee's income. In addition, the employer can deduct out-of-pocket costs such as gas, insurance, taxes and repairs.

If the Company does not comply with the rules and does not include the fringe benefit in the employee's income, the Company will have to prorate automobile expenses between business and personal. The personal portion of the expenses will not be deductible by the company as necessary trade or business expenses.

Please feel free to call us with any questions you have concerning this or any other tax issue.

Sincerely,

Cygan Hayes, Ltd.

Employee Representation Regarding Use of Company Vehicle

The IRS requires employers to provide certain information on their tax return with respect to vehicles provided to employees. This information is also used to calculate the amount of fringe benefit included in the employee's W-2 as income.

The IRS requires that written records be maintained to document the business use of vehicles. Company policy requires employees to maintain detailed records, please provide answers to the following questions. If you were provided more than one vehicle that was used during the year, you need to prepare separate statement for each vehicle. The completed form must be returned no later than the first week for December or 100% of the value of the use of the vehicle will be included in your W-2 income.

Employee's Name____

Description of Vehicle_____________________ ___________________ ______
Make Model Year

Reporting Period from _________________________to______________________________

Beginning odometer reading _____________ Ending odometer reading ___________________

Employee Representation:

1. Total business miles driven for this period ___________________
2. Total commuting miles driven for this period ___________________
3. Total other personal (non-commuting) miles driven for this period ___________________
4. Was vehicle available for your personal use during off-duty hours? Yes_____ No_____
5. Are you an officer, director, 1% or more owner of the business, or an employee whose pay is $220,000 or more?
   Yes_____ No_____
6. Have you maintained evidence sufficient to support the business use? Yes______ No____
7. How many commuting round trips did you make during the year? ______

I hereby attest that the information listed above is true and correct to the best of my knowledge.

____ _________________________
Employee Date

Annual Lease Value Table

Automobile Fair Market Value			Annual Lease Value
$ 0	to	$ 999	$ 600
1,000	to	1,999	850
2,000	to	2,999	1,100
3,000	to	3,999	1,350
4,000	to	4,999	1,600
5,000	to	5,999	1,850
6,000	to	6,999	2,100
7,000	to	7,999	2,350
8,000	to	8,999	2,600
9,000	to	9,999	2,850
10,000	to	10,999	3,100
11,000	to	11,999	3,350
12,000	to	12,999	3,600
13,000	to	13,999	3,850
14,000	to	14,999	4,100
15,000	to	15,999	4,350
16,000	to	16,999	4,600
17,000	to	17,999	4,850
18,000	to	18,999	5,100
19,000	to	19,999	5,350
20,000	to	20,999	5,600
21,000	to	21,999	5,850
22,000	to	22,999	6,100
23,000	to	23,999	6,350
24,000	to	24,999	6,600
25,000	to	25,999	6,850
26,000	to	27,999	7,250
28,000	to	29,999	7,750
30,000	to	31,999	8,250
32,000	to	33,999	8,750
34,000	to	35,999	9,250
36,000	to	37,999	9,750
38,000	to	39,999	10,250
40,000	to	41,999	10,750
42,000	to	43,999	11,250
44,000	to	45,999	11,750
46,000	to	47,999	12,250
48,000	to	49,999	12,750
50,000	to	51,999	13,250
52,000	to	53,999	13,750
54,000	to	55,999	14,250
56,000	to	57,999	14,750
58,000	to	59,999	15,250

For vehicles having a fair market value in excess of $59,999, the Annual Lease Value:
= ($.25 x the fair market value of the automobile) + $500.

Notice to Employees

TO: (Employee)

FROM: (Employer)

DATE: January 1, 2019

RE: Employer Provided Vehicle

(Employer Name) has elected for 2019 not to withhold any federal or state income tax from the value of the personal use of the vehicle, which has been provided to you. However, Social Security and Medicare tax will be withheld if applicable.

You may wish to revise your Form W-4 to cover the additional income for the personal use of the vehicle provided to you. This additional income will be reported on your W-2 at the end of the year.

(Employer Name) has also elected to treat the value of the personal use of the vehicle as paid on an annual basis for 2019.

(Employer Name) has elected for 2019 to use a special valuation rule in calculating the value of the personal use of the vehicle, which has been provided to you. The special valuation rule used will be either the automobile lease valuation rule, vehicle cents-per-mile rule, or the commuting valuation rule, depending on which yields the least amount of taxable income.

In order to use this special valuation rule, you must provide (Employer Name) with a written statement to substantiate your business use of the vehicle during the year. This statement must include your total mileage for the year, broken down between business, commuting, and other personal miles. Attached is a statement, which you may use to submit this information at year-end.

In general, if you do not submit a written statement to (Employer Name), the value of the personal use will be computed using 100% as the personal use portion.