

# **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 \times 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 E	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 d	riven for this period		
4. Was vehicle available for your personal use d	uring off-duty hours?	Yes	_ No
5. Are you an officer, director, 1% or more o \$220,000 or more?	wner of the business, or an	employee	
6. Have you maintained evidence sufficient to su	pport the business use?	Yes	No
7. How many commuting round trips did you mal	ke during the year?		
I hereby attest that the information listed above is	true and correct to the best of	<sup>:</sup> my knowle	dge.
Employee	Date		

# **Annual Lease Value Table**

\$ 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. \$1,850  6,000 to 5,999. \$1,850  6,000 to 6,999. \$2,100  7,000 to 7,999. \$2,350  8,000 to 8,999. \$2,850  10,000 to 10,999. \$3,350  11,000 to 11,999. \$3,350  12,000 to 12,999. \$3,650  13,000 to 13,999. \$3,850  14,000 to 14,999. \$4,100  15,000 to 15,999. \$4,250  16,000 to 16,999. \$4,250  17,000 to 17,999. \$4,250  18,000 to 18,999. \$4,250  19,000 to 19,999. \$3,850  10,000 to 10,999. \$3,850  10,000 to 10,999. \$3,850  10,000 to 11,999. \$3,850  10,000 to 11,999. \$4,250  10,000 to 11,999. \$4,250  10,000 to 16,999. \$4,250  10,000 to 16,999. \$4,250  10,000 to 16,999. \$5,250  10,000 to 17,999. \$5,250  20,000 to 20,999. \$5,250  20,000 to 20,999. \$5,250  20,000 to 20,999. \$5,250  20,000 to 22,999. \$6,250  21,000 to 22,999. \$6,250  22,000 to 22,999. \$6,250  23,000 to 23,999. \$6,250  24,000 to 27,999. \$7,250  28,000 to 29,999. \$7,250  30,000 to 33,999. \$8,750  30,000 to 33,999. \$8,750  30,000 to 33,999. \$8,750  30,000 to 33,999. \$9,250  30,000 to 41,999. \$1,250  40,000 to 51,999. \$1,250  50,000 to 51,999. \$1,250	Automobile Fair	Maı	rket Value	Annual Lease	e Value
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13,000 to       13,999.       3,850         14,000 to       14,999.       4,100         15,000 to       15,999.       4,600         17,000 to       16,999.       4,850         18,000 to       18,999.       5,100         19,000 to       19,999.       5,350         20,000 to       20,999.       5,850         22,000 to       22,999.       6,100         23,000 to       23,999.       6,350         24,000 to       24,999.       6,850         26,000 to       27,999.       6,850         26,000 to       27,999.       7,250         30,000 to       31,999.       8,250         32,000 to       33,999.       8,750         34,000 to       33,999.       8,750         34,000 to       35,999.       9,250         36,000 to       37,999.       9,750         38,000 to       37,999.       9,750         38,000 to       37,999.       10,250         40,000 to       41,999.       10,250         40,000 to       41,999.       11,250         44,000 to       45,999.       11,250         48,000 to       49,999.       12,250      <	11,000	to	11,999.		3,350
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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.       5,850         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         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.       9,250         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.       11,250         44,000 to       45,999.       11,250         48,000 to       49,999.       12,250         48,000 to       49,999.       12,250         50,000 to       51,999.       13,250	14,000	to	14,999.		4,100
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       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       33,999       9,250         36,000 to       37,999       9,250         38,000 to       39,999       10,250         40,000 to       41,999       10,250         44,000 to       45,999       11,250         44,000 to       45,999       11,250         48,000 to       47,999       12,250         48,000 to       49,999       12,250         50,000 to       51,999       13,250         52,000 to       53,999       13,750	15,000	to	15,999.		4,350
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       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       33,999       9,250         36,000 to       37,999       9,250         38,000 to       39,999       10,250         40,000 to       41,999       10,250         44,000 to       45,999       11,250         44,000 to       45,999       11,250         48,000 to       47,999       12,250         48,000 to       49,999       12,250         50,000 to       51,999       13,250         52,000 to       53,999       13,750	16,000	to	16,999.		4,600
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.       6,600         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         34,000 to       35,999.       9,250         36,000 to       37,999.       9,250         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         44,000 to       47,999.       11,750         48,000 to       49,999.       12,250         48,000 to       49,999.       12,250         50,000 to       51,999.       13,250         52,000 to       53,999.       13,750	17,000	to	17,999.		
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.       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.       11,250         44,000 to       45,999.       11,750         46,000 to       47,999.       12,250         48,000 to       49,999.       12,250         50,000 to       51,999.       13,250         52,000 to       53,999.       13,750	18,000	to	18,999.		
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       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       9,250         38,000 to       39,999       10,250         40,000 to       41,999       11,250         44,000 to       43,999       11,250         44,000 to       45,999       12,250         48,000 to       49,999       12,250         50,000 to       51,999       13,250         52,000 to       53,999       13,250	19,000	to	19,999.		5,350
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.       10,250         44,000 to       43,999.       11,750         46,000 to       45,999.       12,250         48,000 to       49,999.       12,250         48,000 to       49,999.       12,250         50,000 to       51,999.       13,250         52,000 to       53,999.       13,250         52,000 to       53,999.       13,750	20,000	to	20,999.		
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         38,000 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.       12,250         50,000 to       51,999.       13,250         52,000 to       53,999.       13,750	21,000	to	21,999.		
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	22,000	to	22,999.		6,100
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	23,000	to	23,999.		
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	24,000	to	24,999.		
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	25,000	to	25,999.		6,850
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	26,000	to			7,250
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	28,000	to	29,999.		
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	30,000	to	31,999.		
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	32,000	to			
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	34,000	to	35,999.		
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	36,000	to	37,999.		9,750
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	38,000	to	39,999.		10,250
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		to	41,999.		
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	42,000	to	43,999.		11,250
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	· · · · · · · · · · · · · · · · · · ·	to	45,999.		
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52,000 to 53,999	· · · · · · · · · · · · · · · · · · ·		-		
	52,000		53,999.		
J+,UUU IU JJ,777 14.ZJU	54,000	to	,		14,250
56,000 to 57,999	,				
58,000 to 59,999	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) + \$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.