

Special Valuation Methods for Personal Use of Company Vehicles

There are generally four special valuation methods that may be used to value employer-provided vehicles. They are as follows:

- A. **Annual Lease Value Method** - this method is based on the “fair market value” (FMV) of the car when first made available for personal use. The employer must obtain the following information:
1. FMV of auto as of first date made available to the employee for personal use which is:
 - a. For purchased vehicles:
 - i. employer’s cost (including sales tax and title fees)
 - ii. if transferred from one employee to another during the year, FMV at the time of transfer as determined by retail value in “black” book.
 - b. For leased vehicles:
 - i. Manufacturer’s suggested list price less eight percent.
 2. Total miles driven during the year.
 3. Personal miles driven during the year.
 4. Lease value is then determined using table (attached).

Example: FMV	\$	10,500
Annual lease value (from table)		3,100
Personal miles		4,000
Total miles		16,000
Personal use portion (4,000 / 16,000)		25%

Amount included on W-2:

Annual lease value	\$	3,100
Personal use portion		<u>25%</u>
		775
Plus gasoline at 5.5 cents per mile of personal use (4,000 x 5.5 cents)		<u>220</u>
Total amount	\$	<u><u>995</u></u>

Note: If the vehicle is used for more than four years beyond the year of acquisition, then the vehicle’s fair market value must be re-determined at the beginning of year five.

- B. **Cents-Per-Mile Method** - This method values employee use at the standard mileage rate multiplied by the number of personal miles.

1. **Requirements**

- a. Auto must be expected to be “regularly used in employer’s business throughout the calendar year” (or as long as may be owned).

GENERAL SAFE HARBOR TEST:

If $\geq 50\%$ of total annual mileage for business

- b. Driven primarily by employees for at least 10,000 miles in a calendar year.
- c. FMV must be **LESS** than maximum recovery deductions allowable (\$15,900 for cars and \$17,700 for trucks or vans).
2. The cents-per-mile method includes gasoline; the rate may be reduced by no more than 5.5 cents per mile if you do not provide fuel.
3. Take personal miles driven multiplied by standard mileage rate (54 cents for 2016).
4. Example (assuming all requirements met)

Personal miles	\$ 20,000
	<u>x .575</u>
Total value <u>including</u> gasoline	\$ 11,500
Less gasoline (20,000 x .055)	<u>(1,100)</u>
Total value excluding gasoline	<u>\$ 10,400</u>

C. **Fleet-Average Method** - May be used to value benefit as of January 1 of calendar year following the year employer uses 20 or more autos.

1. This method is a variation of the Annual Lease Value Method for those employers who have a large fleet of employer-provided vehicles.
2. **Requirements**
- a. Must have 20 or more cars
- b. Must have values of \leq \$21,200 (cars) \$23,100 (truck or Van)
- c. All cars added to fleet must use fleet-average values
3. Employer averages the FMV of cars in fleet and thus uses the average FMV to determine value of fringe benefit to employees. The average FMV of the fleet must be recalculated every two years.
4. Example:

Average value (20 cars) \$ 10,500

Thus, same result as in part A example.

5. In valuing gasoline, there is a “Fleet-Average Cents-Per-Mile fuel cost” method. Fuel cost is calculated as follows:

Fleet-average per gallon fuel cost

Fleet-average miles per gallon rate

(The sample must be the greater of 10% of autos in fleet or 20 autos for representative period, i.e., two months.) However, the IRS does say that if the method imposes an “unreasonable administrative burden” on the employer, the employer may use 5.5 cents per personal mile.

- D. **Commuting Value Method** - The employer may account for the personal use portion by including \$3.00 per day into employee's gross income (W-2).

Requirements

1. Vehicle owned or leased by employer for employee's use in business.
2. Employer requires the employee to commute to and/or from work.
3. Employer has a written policy prohibiting employee personal use.
4. Employee does not use the vehicle for any personal purpose other than commuting.
5. Employee is not a "control employee" of the employer.

Definition of a control employee:

- a. A board or shareholder-appointed, confirmed or elected officer whose pay is \$105,000 or more
- b. Director of the employer
- c. An employee whose pay is \$215,000 or more
- d. An employee who owns a 1 percent or greater equity, capital or profits interest in the employer

Note: For all methods, if the vehicle is used for less than 12 months during the year, the annual lease value is prorated by dividing the number of days available for use by 365.

Employer Rules

Employers may adopt any of the above methods to take effect January 1 or the first day on which the car is made available to the employee for personal use. Once, however, the adoption is made, the employer is locked into the method they selected for that auto when the car is first made available to the employee. Valuation rules are on a vehicle-by-vehicle basis (except for fleet-average) and an employer need not use the same method for all vehicles.

Employer Notice Requirements

Should the employer elect to use a special alternative valuation method, notice to the employee is required.

1. Employer must notify the employee of the election by the later of January 31st of the calendar year for which the election is to apply or 30 days after the employer first provides the benefit.
2. Content of notice
 - a. method employer intends to use
 - b. substantiation requirements the employee must provide and effect of failing to do so
 - c. date notice of method provided

Note: The employer can state in notice that he intends to use either of two methods, whichever provides lower income.

3. Manner of notice – "manner reasonably expected to come to the attention of all affected employees."
 - a. directly by mailing
 - b. paycheck
 - c. posting on board

4. If an employer should fail to give notice, the employer could satisfy if by January 31, 2016, the employer receives written notification from an employee not notified which clearly indicates employee knows of:
 - a. employer's use of special valuation rule
 - b. substantiation requirements
 - c. the effect of failure to comply with such requirements

However, it would not be wise to rely on this safeguard as the employer has potentially lost control over which method he/she wishes to use.

Attached is a sample notification letter which may be used to give notice to each employee for which a vehicle is provided. All notices must be given by the later of January 31st of the calendar year for which the election is to apply or 30 days after the employer first provides the benefit.

In addition to the above notification, you may elect not to withhold federal income tax on the value of personal use provided you notified the employees of your intention not to withhold by the later of January 31st or 30 days after the auto is first provided to the employee. This election applies only to federal income tax; FICA tax must still be withheld.

SAMPLE

AUTOMOBILE VALUATION NOTIFICATION ABC COMPANY

DATE [Date notice provided]

The tax laws require us to determine the value of your personal use of the vehicle we provide you. They also require that if we select from among several special valuation methods, we must notify you of the one we will use. This will allow you to adjust your Federal Income Tax Withholding to properly reflect your tax liability, including the taxable part of the automobile we have provided to you.

We are also required to notify you of your obligation to substantiate your use of the vehicle and of the consequences to you if you fail to do so.

This letter constitutes these notifications to you:

1. ABC Company is electing to use the valuation method checked below for determining the taxable value of your personal use of the automobile we have provided for your use. If more than one method is checked, we will use the method providing the lowest taxable income to you.
2. Substantiation requirements - You are required to keep adequate records concerning your use of the car so we may determine, under the Income Tax Regulations, how much of the value of the car is taxable to you for personal use. You must submit these records to [Name of Individual or Department]. The records you must keep are [specify record keeping requirements of the employer]. If you do not submit proper substantiation records, we will be required to report to the Internal Revenue Service that the entire value of your use of the car is taxable income to you.

3. Valuation rules:

Lease value - The personal use of the automobile is arrived at by multiplying the value of the automobile, as indicated on Internal Revenue Service tables, by the ratio of personal use miles to the total miles of the car for the year. If the automobile was not available to you for the entire year, the annual lease value will be prorated.

Vehicle cents-per-mile value - The personal use value of the automobile will be determined by multiplying the personal miles driven times the standard mileage rate provided by the Annual Internal Revenue Service. This is currently 54 cents per mile for 2016 (minus 5.5 cents per mile if the employer does not provide fuel).

Commuting value - The personal use value of the automobile will be determined as \$1.50 **PER ONE WAY COMMUTE**; for example, from home to work or from work to home.

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 is equal to:
(.25 x the fair market value of the automobile) + \$500

NOTICE TO EMPLOYEES OF ELECTION NOT TO WITHHOLD
INCOME TAXES ON PERSONAL USE OF AUTOMOBILES

Under IRS Regulations, you are subject to Federal and State income and withholding taxes on the value of your personal use of an employer-provided vehicle. These regulations allow employers the option not to withhold income taxes on this value. We are still required, however, to include this value on the Form W-2 you will receive for (year).

This is your notification that we are electing not to withhold income taxes on the value of your personal use of an employer-provided vehicle. We are still required to withhold social security tax on this value and will continue to do so.

To avoid having to pay additional taxes when you file your (year) return, you may wish to amend your W-4, withholding certificate, to provide for additional withholding. Alternatively, you may wish to make payments of estimated taxes by filing Form 1040-ES.
