

## **2011 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. This guide explains how the employer may treat the employee use of company-provided vehicles and calculate the taxable portion. We have also enclosed the annual lease valuation table, and the worksheets for calculating the taxable benefit.

### **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**

The employer has four valuation methods available to determine the value of the employee's personal use of the company vehicle. Under each method, the vehicle must be owned or leased by the employer.

**General Rule:** This rule applies the "arm's length" fair market value standard to determine the value of the vehicle. In other words, fair value would be what the individual would have to pay a third party to lease the same vehicle on comparable terms in the same geographic area. Since this amount can be difficult to determine, the three following valuation methods provide several alternative "safe harbor" approaches to determining value. They are 1) the Annual Lease Value Method, 2) the Cents-Per-Mile Method, and 3) the Commuting Valuation Method.

**1. Annual Lease Value Method:** Under the Annual Lease Value Method the vehicle is assigned an annual lease value determined from Internal Revenue Service tables, based on the fair market value of the vehicle as of the date the first personal use occurs. If the vehicle was purchased, the employer may use the vehicle's cost, including tax, title and other purchase expenses. If the vehicle was leased, the employer may use one of three methods to determine fair market value: 1) the manufacturer's invoice price plus 4%, 2) the manufacturer's suggested retail price less 8%, or 3) a value reported by a nationally recognized pricing source, if reasonable.

After the annual lease value of a vehicle has been 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 lease value is prorated. (Note that, in certain limited circumstances, special daily lease value rules may apply.) If the employer also provides fuel, then an additional 5.5 cents per personal-use mile must be added to obtain the total taxable benefit.

The annual lease value method must be used if the employer-provided vehicle qualifies as a "luxury automobile" (see definitions below) as of the date of first personal use, or if the employer elects to treat 100% of the vehicle's use as personal use. Once the annual lease value 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, except that the commuting valuation method may be used for any period that its requirements are met. 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. If use of a vehicle is

transferred from one employee to another, and the purpose of the transfer is not primarily to reduce taxes, the annual lease value may be re-determined based on the fair market value of the vehicle as of January 1 of the year of transfer.

**2. Cents-Per-Mile Method:** Under the Cents-Per-Mile Method, the employer values the taxable benefit by multiplying the employee's personal miles by the current standard mileage rate. Business miles must be substantiated by the employee and subtracted from the total miles to determine personal miles. The rate for 2011 is 51 cents per mile from January 2011 through June 30, 2011 and 55.5 cents per mile from July 1, 2011 through December 31, 2011. If the employer does not provide fuel, subtract 5.5 cents per mile.

The cents-per-mile method can be used if the employer-owned or leased vehicle:

- is not a "luxury" vehicle (see DEFINITIONS) **AND**
- is used at least 50% in the employer's trade or business, **OR**
- is used to car-pool at least 3 employees each workday, **OR**
- is regularly used in the employer's trade or business on the basis of all the facts and circumstances, **OR**
- is driven at least 10,000 miles in the year (prorated for partial years) and used primarily by employees.

The cents-per-mile method must be consistently used with respect to a vehicle for all periods in which the vehicle qualifies for this method. The employer must continue to use the cents-per-mile method if a replacement vehicle is provided for the primary reason of reducing federal taxes. However, the Commuting Valuation Method may be used in years in which the vehicle use qualifies without violating this consistency rule.

This method cannot be used if the employer elects to treat 100% of the vehicle's use as personal use.

**3. Commuting Valuation Method:** Under this method, the taxable value of commuting is \$1.50 per one-way commute (\$3.00 per round trip) 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 (such as a stop for lunch), **AND**
- the employer must reasonably believe that this policy is being adhered to.

This method may not be used if:

- personal use other than commuting and de minimis personal use is allowed, **OR**
- the employee actually uses the vehicle for personal purposes other than commuting and de minimis personal use, **OR**
- the employee is a control employee (see DEFINITIONS, below).

## **NOTIFICATION AND TIMING**

Employers who provide company-owned or leased vehicles to their employees must notify affected employees as to the valuation method to be 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. (Consequently, for 2011, employees must be notified by January 31, 2011.) The employer may elect to treat benefits provided in November and December as paid in the following year if the value of the benefits cannot otherwise be readily determined by the January 31 deadline for Form W-2. Affected employees should be advised of this accounting election no later than the date they receive their Forms W-2.

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## DEFINITIONS

A "luxury automobile" is a vehicle with an adjusted basis that exceeds an amount set annually by the Internal Revenue Service. For 2011, that amount is \$15,300 for passenger automobiles and \$16,200 for trucks and vans (including passenger autos built on a truck chassis, such as minivans and sport-utility vehicles).

A "control" employee is:

- any employee with compensation of \$195,000 or greater OR
- an officer with compensation of \$95,000 or more, OR
- a director OR
- an employee who owns a 1% or more equity, capital, or profits interest, OR
- a government employee with compensation exceeding executive Level V compensation, OR
- an elected official, OR
- alternatively, a "highly compensated employee", who meets one of the following criteria:
  1. an employee who was a 5% owner at any time during the year or the preceding year, OR
  2. an employee who received more than \$110,000 compensation in the preceding year. (This can be ignored if the employee was not also in the top 20% by pay in the prior year.)

## SUBSTANTIATION AND RECORDKEEPING

The employer is not required to keep account books, diaries, logs, statements of expenses, trip sheets, or other similar records to substantiate business use if:

- The vehicle is a "qualified non-personal use" vehicle such as a school bus, special utility truck, moving van, a truck with only a driver's seat, etc (all use of such vehicles is a nontaxable working-condition fringe benefit); or
- The employer has a written policy of no personal use of company-provided vehicles; or
- The rules under the commuting valuation method described previously 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. Substantiation includes retaining copies of the employee's records corroborating the employee's statement of the amount of the expense or use, the time and place of travel, and the business purpose of the expense or use.

The employer should obtain the following information from employees:

- 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. If a vehicle is provided to a 5% or more owner, all requested information must be provided without exception.

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## **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 taxes. 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 use this option, the employer must give the employee written notice by January 31st of the reporting year or within 30 days of the employee's receipt of the company vehicle, whichever is later.
- 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 at 25% for federal purposes and 7.35% for New York State purposes.

The personal use value should be included in the employee's Form W-2, in Boxes 1, 3, and 5. The personal use value of a vehicle provided to the employee and reported in Box 1 should be reported in Box 14 or in a separate statement to the employee.

The taxable benefit must also be included on Forms 940, Forms 941, and NYS-45 and NYS-45-ATT.

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**WORKSHEET TO CALCULATE INCOME  
FROM PERSONAL USE OF COMPANY VEHICLE**

EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S TAXABLE  
INCOME RESULTING FROM EMPLOYER-PROVIDED VEHICLE  
FOR CALENDAR YEAR 2011

EMPLOYEE: \_\_\_\_\_

DESCRIPTION OF VEHICLE: \_\_\_\_\_

DATE VEHICLE FIRST MADE AVAILABLE TO ANY EMPLOYEE: \_\_\_\_\_

DATE VEHICLE FIRST MADE AVAILABLE TO THIS EMPLOYEE: \_\_\_\_\_

*Select one method (note limitations on methods II and III)*

**METHOD I - ANNUAL LEASE VALUE METHOD** (For Autos Available 30 Days or More)

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 attached chart		\$ _____	(1)
Enter number of days during the year that the vehicle was available	x	_____	
Divide by number of days in tax year	÷	_____	
Prorated annual lease value		_____	
Personal use % (personal/total miles, per statement from employee)	x	_____	%
Personal annual lease value		\$ _____	
If fuel is provided by employer, enter personal miles _____ x _____	x	_____	(2)
Personal use taxable income		\$ _____	

(1) For autos available for 7 days or less, multiply the annual lease value by 4. If the availability is more than 7 days, but less than 30, the taxpayer may elect to use the annual lease value without the 4 multiplier.

(2) If fuel is provided "in kind," the fair market value may be determined based on all facts and circumstances or, alternatively, at 5-1/2 cents per mile if auto usage is within the US, Canada, and Mexico. Generally, where fuel is purchased and charged to the employer, the actual cost or reimbursement should be used. If employers with a fleet of 20 or more vehicles reimburse or allow employees to charge fuel cost, the fleet-average cents per mile may be used. If the fleet employer determines that actual cost or fleet average methods are unreasonable administrative burdens, the 5-1/2 cents per mile may be used.

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CALENDAR YEAR 2011**

METHOD II- STANDARD MILEAGE RATE METHOD

Generally, in order to qualify to use the cents-per-mile method, the vehicle must: (1) be expected to be regularly used in the employer's business throughout the calendar year, (2) be driven at least 10,000 miles per year, and (3) have a fair market value of \$15,300 or less (\$16,200 for trucks and vans). Once this method is adopted for a particular vehicle, it must be continued until the vehicle no longer qualifies.

For January 1, 2011 through June 30, 2011  
Enter personal miles \_\_\_\_\_ x \$0.51 \$ \_\_\_\_\_

For July 1, 2011 through December 31, 2011  
Enter personal miles \_\_\_\_\_ x \$0.555 \$ \_\_\_\_\_

If fuel is NOT provided by the employer  
enter personal miles \_\_\_\_\_ x \$0.055 = (subtract) ( \_\_\_\_\_ )

Personal use taxable income \$ \_\_\_\_\_

METHOD III- SPECIAL COMMUTING METHOD

This method may only be used for vehicles for which the employer allows commuting but no other personal use. DO NOT USE if employee is a 1% or more owner, a director, an officer with compensation of \$95,000 or more, or an individual with compensation equaling or exceeding \$195,000.

Number of commuting round trips made \_\_\_\_\_

Value per round trip \_\_\_\_\_ x \_\_\_\_\_ \$3.00

Personal use taxable income \$ \_\_\_\_\_

## ANNUAL LEASE VALUE TABLE

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

For automobiles with a fair market value greater than \$59,999, the annual lease value is  $0.25 \times$  fair market value + \$500.

The annual lease value determined from the table is adjusted for the percentage of business use (if any) to compute the value of personal use of an employer-provided automobile which the employee must include in income.<sup>18</sup> This value must also be prorated if the automobile is not available to the employee for the entire calendar year.