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Company Car Guidelines

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

Company Car

When an employee uses a company automobile 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 $115,000 or more, a director, an employee whose pay is $230,000 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 (57.5 cents for 2020) 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 employee's business, (2) be driven at least 10,000 miles per year, primarily by employees, and (3) have a fair market value less than $50,400 (including cars, trucks and vans) placed in service in 2020 (please call us for the applicable limit for automobiles placed in service in years prior to 2020). Note, if the car 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 57.5 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 auto 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. The fair market value of the automobile on the date the vehicle was first 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, 2020, ABC Company made a company auto available to John. The fair market value of the auto on January 1, 2020 was $26,500. John drove the auto 36,000 miles total during the year of which 12,000 of the miles were personal.

   Step 1 – Determine the Annual Lease Value
   The ALV for a $26,500 auto is $7,250 on the attached table. We do not have to prorate the $7,250 since the auto 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 personal miles driven.

We have attached a sample worksheet, which you may use to calculate income for personal use of company vehicles.

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 car is not allowed to be used for personal purposes, (2) the only allowable personal use of the car is commuting, or (3) all use of the car 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).

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 tax purposes, an employer may elect to treat the value of the personal use of the car 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. 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).

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.

The above rules are the responsibility of the employer. 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,

Leeper, Kean & Rumley, L.L.P.

EMPLOYEE REPRESENTATION REGARDING USE OF COMPANY VEHICLE

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

The IRS generally requires that written records be maintained to document the business use of vehicles. Since the company policy requires employees to maintain the 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 a separate statement for each vehicle.

The completed form must be returned no later than ________ or 100% of the value of the use of the vehicle will be included in your W-2 income.

Description of vehicle: ____

Reporting period from ____________________ to ____________________________

Odometer reading: Beginning: ______________ Ending: ___________________

Employee Representation:

1. Was the vehicle available for your personal use during off-duty hours? YES NO

2. Did you have another vehicle available for your personal use (this includes a car you own personally)? YES NO

3. Are you an officer, director, 1% or more owner of the business, or an employee whose pay is $230,000 or more? YES NO

3. How many commuting round trips did you make in this vehicle? ________

4. For the reporting period specified above, please provide the number of miles for each of the following categories:

   Total commuting miles ________________

   Total other personal (non-commuting miles) ________________

   Total personal miles ________________

   Total business miles ________________

5. Did the employer pay the cost of fuel consumed by this vehicle? YES NO

____________________________________ ______________

(EMPLOYEE SIGNATURE) (DATE)

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

EMPLOYEE: ____

DESCRIPTION OF VEHICLE: ____________________________________

DATE VEHICLE FIRST MADE AVAILABLE TO ANY EMPLOYEE: _______________

DATE VEHICLE FIRST MADE AVAILABE TO THIS EMPLOYEE: ________________

SELECT ONE METHOD (NOTE LIMITATIONS ON METHODS II AND III)

METHOD I – ANNUAL LEASE VALUE METHOD
(For autos available for 30 days or more)

Fair market value of vehicle (to be determined again 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_______ [2]	+ ____________________
Personal use taxable income	$ ____________________

[1]For autos 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 5.5 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 5.5 cents per mile may be used.

WORKSHEET TO CALCULATE INCOME FROM PERSONAL USE OF COMPANY VEHICLE

ANNUAL LEASE VALUE TABLE

AUTOMOBILE FAIR MARKET VALUE	ANNUAL LEASE VALUE
$ 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 – 10,999	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

AUTOMOBILE FAIR MARKET VALUE	ANNUAL LEASE VALUE
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 vehicles having a fair market value in excess of $59,999, the Annual Lease Value is equal to: (.25 x automobile fair market value) + $500.