WHY THIS MATTERS

When an employee uses a company-provided vehicle for personal use, it becomes taxable and must be reported on their W-2.

All employers who furnish vehicles to employees for the employee’s personal use are required to add the personal use value of the vehicle to the employee’s W-2.

In order for you to know how much value is to be added or reimbursed, total use and personal use information must be reported by the employee using the vehicle.

METHODS FOR VALUATION OF PERSONAL USE OF EMPLOYER-PROVIDED VEHICLE

The value of personal use of company vehicle must be reported as income at least once a year.

There are four options for reporting:

1. GENERAL VALUATION RULE

   The general valuation method is determined by the cost an individual would incur to lease the same vehicle under the same terms in the same geographic area.

2. ANNUAL LEASE VALUE TABLE METHOD

   PURCHASED AUTO - Value is determined by using employer cost plus wholesale book value of any traded vehicle (if acquired at fair market value) with cost to include sales tax and title fees.

   • If the employee contributes an amount toward the purchase price of an automobile in return for a percentage ownership interest in the automobile, the annual lease value is determined by reducing the fair market value of the employer-provided automobile by the lesser of either:
     • The amount contributed
     • An amount equal to the employee’s percentage ownership interest multiplied by the unreduced fair market value of the automobile

   The employee’s ownership interest will only be recognized if the employee’s name is included in the automobile’s title.

   • If an employee contributes an amount toward the cost to lease an automobile in return for a percentage interest in the automobile lease, the annual lease value is determined by reducing the fair market value of the employer-provided automobile by the lesser of either:
     • The employee’s percentage interest in the lease
     • A fraction, the numerator of which is the amount contributed and the denominator of which is the entire lease cost

   An employee’s interest in an automobile lease will not be recognized unless the employee is a named co-lessee on the lease.

EXAMPLE:

Assume that an employer pays $15,000 and an employee pays $5,000 toward the purchase of an automobile. Assume further that the employee receives a 25% interest in the automobile and is named as a co-owner on the title to the automobile. The adjusted fair market value of the automobile is determined by reducing the fair market value of the automobile, $20,000, by the $5,000 employee contribution, resulting in an annual lease value of $15,000. Thus, the annual lease value of the automobile is $4,350.

If the employee in this example does not receive an ownership interest in the automobile and is provided the use of the automobile for two years, the annual lease value would be determined without regard to the $5,000 employee contribution. Thus, the annual lease value would be $5,600. However, the $5,000 employee contribution would reduce the amount includible in the employee’s income. Thus, if the employee places 50% of the mileage on the automobile for the employer’s business each year, then the amount includible in the employee’s income in the first year would be ($5,600 - $2,800 - $2,800), or $0, the amount includible in the employee’s income in the second year would be ($5,600 - $2,800 - $2,200) ($5,000 - $2,800) or $600 and the amount includible in the third year would be ($5,000 - $2,800) or $2,200 since the employee’s contribution has been completely used in the first two years.
LEASED AUTO - Value for leased automobiles is either:

- Manufacturer’s suggested retail price, including sales tax and title fees, less 8% 
- The retail value provided in any nationally recognized publication or electronic database that regularly reports retail car values 
- The manufacturer’s invoice price (including options) plus 4%

Once the fair market value of the automobile has been determined, locate the annual lease value amount in the Annual Lease Value table and calculate the employee’s personal share. In addition, you must add the value of the fuel provided, currently 5.5 cents per mile. In determining the fair market value of the vehicle, you are not required to add the value of specialized equipment, e.g. car phone, if the equipment was added to satisfy employer business needs.

Once elected, the use of the annual lease value table amounts must be used for the election year and the subsequent four-year period.

3. **CENTS-PER-MILE METHOD** - Value is determined by multiplying the miles driven by 58 cents per mile Dec. 1, 2019 to Dec. 31, 2019 and 57.5 cents per mile Janu. 1, 2020 to Nov. 30, 2020. Since fuel is considered to be included in the valuation, you may subtract 5.5 cents per mile if the employer does not provide fuel.

4. **COMMUTING VALUATION METHOD** - Value is determined by multiplying $1.50 per one-way commute by the number of one-way commutes by the employee during a given year. This method is available only if the employer requires the employee to commute in the car for a “bona-fide non-compensatory business reason.” If the employee uses the car more than a de minimus amount for other personal reasons, this method is not available.

**NOTE:**

This method is not available to a “control employee.” A “control employee” is defined as any of the following:

- A board or shareholder-appointed, confirmed or elected officer whose compensation equals or exceeds $115,000 for 2020
- A director of the employer
- A 1% or greater owner (equity, capital or profits interest) of the business or an employee whose compensation equals or exceeds $230,000 for 2020
- For governmental employees, a “control employee” is an elected official or a governmental employee whose compensation equals or exceeds $156,000 for 2020

5. **FLEET AVERAGE VALUATION RULE** - Value is to be determined by using the annual lease value tables for the average fleet cost. This method is available only to employers providing 20 or more vehicles and has very limited use. If you feel that your company may qualify, contact us.
WHAT TO SAY:
In accordance with Internal Revenue Service Temporary Regulations Section 1.274-6T filed November 1, 1985, you are hereby notified that vehicles provided to you for Company use during business hours are not to be used personally, except for de minimus personal use (such as a stop for lunch while on business), other than for commuting to and from your residence to our place of business. The commuting use permitted by our policy would apply only to you as an employee and all other personal use is strictly prohibited by you or any party related to you. (A related party under the tax law normally means your family.)

WHEN TO USE IT:
This notice may be posted and enforced by employers who wish to have employer-provided vehicles available for personal commuting and minimal personal use such as stops for lunch or personal errands if they are on the business trip route taken by the employee.

VEHICLES NOT USED FOR PERSONAL PURPOSES OTHER THAN COMMUTING

WHEN TO USE IT:
This notice may be posted and enforced by employers who wish to have employer-provided vehicles only available for business use by the employee. These vehicles may not be used for any personal purposes except de minimus personal use such as a stop for lunch between two business locations.

WHAT TO SAY:
In accordance with Internal Revenue Service Temporary Regulations Section 1.274-6T filed November 1, 1985, you are hereby notified that vehicles provided to you for Company use during business hours are not to be used personally, except for de minimus personal use (such as a stop for lunch while on business).

WHEN TO USE IT:
This notice may be posted and enforced by employers who wish to have employer-provided vehicles only available for business use by the employee. These vehicles may not be used for any personal purposes except de minimus personal use (such as a stop for lunch while on business).
EMPLOYEE NOTICE
Attention: All Employees Provided with Company Vehicles from December 1, 2019, through November 30, 2020.

INCOME TAX IMPLICATIONS OF USE OF COMPANY VEHICLES
Tax laws and IRS regulations impose stringent rules to the personal use of employer-provided vehicles and require good record keeping to document the business use of such vehicles.

The following is a general discussion of the personal income tax considerations associated with the use of the Company vehicle you have been provided. We recommend that you consult your personal tax advisor regarding any specific questions you may have.

COMPANY POLICY
• The Company has elected to use special valuation rules for determining the taxable value of your personal use of the Company vehicle. Your additional compensation related to this personal use will be determined by using either the annual lease valuation, cents-per-mile or commuting valuation rules.

• In accordance with IRS Announcement 85-113, the Company has adopted a November 30 cut-off date for gathering information to report the following income on your 2020 Form W-2:
  » The annual lease value/cents-per-mile/or commuting value of your vehicle as determined under IRS regulations.
  » The value of Company-paid gasoline costs, which will be calculated by multiplying $0.055 by your non-business mileage driven from December 1, 2019, to November 30, 2020.

The Company is preparing individualized statements for each employee showing the amount of income that will be either added to your W-2 form or reimbursed by you to the Company.

These statements will be mailed to you as soon as possible after we receive the Company Vehicle Mileage Statement (attached) on which you must indicate total miles and business miles driven in your Company vehicle from December 1, 2019, to November 30, 2020.

• In accordance with IRC section 3402(s), the Company elects that federal income taxes will not be withheld on the taxable personal-use value of your vehicle or on the value of Company-paid gasoline costs.

• Social Security (FICA) tax and Medicare tax will be withheld at a rate of 6.2% and 1.45% respectively on a one-time, lump-sum basis for 2020. An additional 0.9% Medicare Surtax will also be withheld if required. This withholding will take place in the final 2020 pay period.

SUGGESTIONS ON HOW TO SUBSTANTIATE BUSINESS USE
• You must keep your own records. We suggest that you keep a log showing the date, amount and business purpose of each use or cost associated with your Company vehicle. (A daily calendar book will work nicely and automatically document date and purpose.) To determine your non-business use, simply calculate your total miles and then subtract your business-use miles for the period beginning December 1, 2019, and ending November 30, 2020. Note: You should record the beginning of the period and end of the period odometer readings from the vehicle.

• Failure to maintain adequate records may result in the entire value of the vehicle being treated as taxable income to you. Such treatment could result in an assessment for back taxes, penalties and interest that could create a significant financial burden for you. Proper documentation will ensure that the Company reports the proper amount of income from personal use to you on your W-2 form or bills you for the proper reimbursement.

• You should keep these records for at least four years so that your documentation will be available in the event of an IRS audit.
STATEMENT FROM EMPLOYEE TO EMPLOYER REGARDING USE OF EMPLOYER-PROVIDED VEHICLE

Company Name: ____________________________

Reporting Period from December 1, 2019, to November 30, 2020

Vehicle Make: ________________________________

Model: ____________________________

Year: ________________________________

Date placed in service: _________________

The IRS requires employers to provide certain information on their tax return with respect to the vehicle provided to you. The IRS generally requires that written records be maintained to document the use of business vehicles. Since our policy requires you to maintain the detailed records, please provide answers to the following questions. If you were provided with more than one vehicle, you need to prepare one of these statements for each vehicle.

If you have any questions regarding the requirement that you maintain sufficient evidence to support your answers to the following questions, contact your supervisor immediately.

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 or 1% owner of the business? [   ] YES  [   ] NO

4. How many commuting round trips did you make in this vehicle? 
   ______________________________________________________

5. Please provide the number of miles for each category below:
   Total business miles: ____________________________
   Total commuting miles: ____________________________
   Total other personal (non-commuting miles): ____________________________
   Total Miles: ____________________________

6. Did the employer pay the cost of fuel consumed by this vehicle?  
   [   ] YES  [   ] NO

7. Auto expenses paid by employee personally or any fee paid to Company. 
   ______________________________________________________

The above figures are based upon my written records of business and personal use. I understand that I may be required to furnish such documentation in the event of an IRS examination.

EMPLOYEE’S SIGNATURE ________________________  DATE ____________

EMPLOYEE’S NAME - PRINT ________________________

*The information contained in this form will be used to calculate an amount to be included in your 2020 W-2 income.
EMPLOYER WORKSHEET TO CALCULATE EMPLOYEE TAXABLE INCOME

Employee: ____________________________

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

Method I – Annual Lease Value Table Method

Fair market value of vehicle at date first available for personal use

(Value must be reevaluated at the beginning of the year following four full calendar years since the last determination)

Purchased Auto

Amount employee contributed or percentage ownership interest

*unreduced FMV

Leased Auto

Employee’s percentage interest in the lease or a fraction, of which the numerator equals the amount contributed and the denominator equals the entire lease cost

Adjusted fair market value

Annual lease value – table

Personal use %

Total miles

Business miles

Personal miles

Personal miles/Total miles

*Personal value of annual lease

If employer pays for fuel, multiply the number of personal miles driven by 5.5 cents per mile

Expenses paid by employee personally

Total employee taxable income

(A) __________________ [1]

(B) __________________ [1]

(C) __________________ [1]

(D) __________________

(E) __________________%

(G) __________________

(H) __________________ [1]

(F) + (G) - (H) __________________ [1]

[1] Fill out and return to Eide Bailly if you want the taxable income computed for you.

WHEN TO USE IT:
This worksheet is to be completed after receiving the mileage information from the employee. This worksheet is used to calculate the taxable income.

Method II – Cents-Per-Mile Method

In order to qualify to use the cents-per-mile method, the vehicle must have a fair market value of less than $50,400 for autos first made available in 2019 and 2020.

For trucks and vans (passenger autos built on a truck chassis, including minivans and sport-utility vehicles (SUVs) built on a truck chassis) first made available in 2019 and 2020, the fair market value must be under $50,400. Both must either (1) be regularly used in the employer’s business or (2) be driven at least 10,000 miles per year and be used primarily by employees.

Once this special alternative is used for a particular vehicle, it must be continued for as long as the vehicle is owned by the employer. If this method is desirable, it must be selected in the year the vehicle is first used for personal purposes.

Enter personal miles driven December 1, 2019, to December 31, 2019

\[ \text{Enter personal miles driven January 1, 2020, to November 30, 2020} \]

\[ \text{Enter miles for which employee paid for fuel} \]

\[ \text{Total employee taxable income} \]

Method III - Commuting Valuation Method

This part can only be used for vehicles covered by a written policy (Exhibit 1) which allows commuting but no other personal use.

Number of commuting round trips made $________

Value per round trip x $ 3.00

Total employee taxable income $________

Note: This method is not available to a “control employee.” A “control employee” is defined as the following:

- A board or shareholder-appointed, confirmed or elected officer whose compensation equals or exceeds $115,000
- A director
- A 1% or greater owner of the business or an employee whose compensation equals or exceeds $230,000 for 2020.
- For governmental employees, a “control employee” is an elected official or a governmental employee whose compensation equals or exceeds $156,000 for 2020.

* If used less than the entire year, multiply this amount by a fraction which is the number of days available divided by 365.

A minimum of 30 days personal use must be assumed or a daily rate (four times the regular rate) applied.
TO DETERMINE FAIR MARKET VALUE:

1. New or used vehicle purchased and no trade in: Use actual purchase price.
2. New or used vehicle purchased and trade in of old vehicle: Use boot price plus wholesale book value of traded vehicle (which you may obtain from the auto dealer).

ANNUAL LEASE VALUE TABLE

<table>
<thead>
<tr>
<th>Automobile Fair Market Value</th>
<th>Annual Lease Value</th>
<th>Automobile Fair Market Value</th>
<th>Annual Lease Value</th>
</tr>
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</table>

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.

PERSONAL USE OF COMPANY VEHICLE IS COMPLEX. SO ARE VARIOUS OTHER ASPECTS OF YEAR-END. WE CAN HELP. WWW.EIDEBAILLY.COM/YEAREND
You Know Your Business. We Know the Numbers.
Take pressure off your day-to-day and find more time to focus on the things you want with the help of Eide Bailly. Whether you need help with bookkeeping, payroll, management advisory or other outsourced services, Eide Bailly has the resources to keep you moving forward.

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