



Dear Clients and Business Friends:

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. As an option, the employee could pay the employer for the personal use of the "employer-provided" vehicle. In order for you or our office 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.

The enclosed packet consists of the following:

### **Notice: Exhibit 1**

Vehicles not used for personal purposes other than commuting

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.

### **Notice: Exhibit 2**

Vehicles not used for personal purposes (stored at employer's premises)

Alternatively, 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.

### **Employee Notice**

This notice summarizes the employer's position on employer-provided vehicles and the employee's responsibility for documentation of vehicle use.

### **Methods for Valuation of Personal Use of Employer-Provided Vehicle**

This section explains the various methods available to compute the personal use of employer-provided vehicles.

### **Statement from Employee to Employer Regarding Use of Employer-Provided Vehicle**

This statement must be completed and signed by each employee who used an employer-provided vehicle.

### **Employer's Worksheet to Calculate Employee's Taxable Income Resulting from Employer Provided Vehicle for the period 12/1/17 – 11/30/18**

This worksheet is to be completed after receiving the mileage information from the employee. This worksheet is used to calculate the taxable income.

Please read through the packet carefully! Feel free to call our office if you need assistance with the forms and worksheets. We can calculate the taxable income and FICA taxes for you.



### Notice: Exhibit 1

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.)

### Notice: Exhibit 2

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).

## Employee Notice

Attention: All Employees Provided with Company Vehicles from December 1, 2017, through November 30, 2018.

### 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

1. 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.
2. 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 2018 Form W-2:
  - a) The annual lease value/cents-per-mile/or commuting value of your vehicle as determined under IRS regulations.



- b) The value of Company-paid gasoline costs, which will be calculated by multiplying \$.0545 by your non-business mileage driven from December 1, 2017 to November 30, 2018.

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, 2017 to November 30, 2018.

3. 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.
4. 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 2018. An additional 0.9% Medicare Surtax will also be withheld if required. This withholding will take place in the final 2018 pay period.

#### **Suggestions on how to Substantiate Business Use**

1. 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, 2017, and ending November 30, 2018. Note: You should record the beginning of the period and end of the period odometer readings from the vehicle.
2. 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 which 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.
3. You should keep these records for at least four years so that your documentation will be available in the event of an IRS audit.

#### **Methods for Valuation of Personal use of Employer-Provided Vehicle**

1. **Annual Lease Value Table Method** – value for purchased or leased autos is different.



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**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.

- a. 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:
  - i. The amount contributed, or
  - ii. 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.

- b. 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:
  - i. The employee's percentage interest in the lease, or
  - ii. 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 percent 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 adjusted fair market 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 percent 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  $(\$5,600 - 2,800)$  or \$2,800 since the employee's contribution has been completely used in the first two years.

**Leased Auto** – value for leased automobiles is either:

- a. Manufacturer's suggested retail price, including sales tax and title fees, less 8%,
- b. The retail value provided in any nationally recognized publication or electronic data base that regularly reports retail car values, or
- c. 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, i.e. 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. For example, all vehicles which were placed in service on or after January 2, 2013 and before January 2, 2014 will need to be revalued as of January 1, 2018.

2. **Cents-Per-Mile Method** – value is determined by multiplying the miles driven by 53.5 cents per mile for miles driven from December 1, 2017 to December 31, 2017 and 54.5 cents per mile for miles driven from January 1, 2018 to November 30, 2018. 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.

Severe restrictions apply to the use of this method. The vehicle value must be less than \$15,900 for an auto first made available in 2017 or less than \$15,900 for an auto first made available in 2018, and less than \$17,800 for trucks and vans first made available in 2017 or less than \$17,800 for trucks and vans first made available in 2018 (passenger autos built on a truck chassis, including minivans and sport-utility vehicles (SUVs) built on a truck chassis). The employer must reasonably expect that the vehicle will be used regularly in its trade or business; or the vehicle must be driven at least 10,000 miles in each year and be used primarily by employees.

3. **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 the following:
  - a. A board or shareholder-appointed, confirmed or elected officer whose compensation equals or exceeds \$110,000 for 2018.
  - b. A director of the employer or
  - c. A one percent or greater owner (equity, capital or profits interest) of the business or an employee whose compensation equals or exceeds \$220,000 for 2018.
  - d. For governmental employees, a "control employee" is an elected official or a governmental employee whose compensation equals or exceeds \$153,800 for 2018.

4. **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, please contact our office for the details regarding the use of this method.



Company Name: \_\_\_\_\_

**Statement from Employee to Employer Regarding use of Employer-Provided Vehicle**

Reporting Period from December 1, 2017 to November 30, 2018

**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 more than one vehicle, you need to prepare one of these statements for each vehicle provided.

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.



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EMPLOYEE'S SIGNATURE

DATE

*\*The information contained in this form will be used to calculate an amount to be included in your 2018 W-2 income.*



## Employer's Worksheet to Calculate Employee's Taxable Income Resulting from Employer Provided Vehicle for Calendar Year 2018

Employee's Name: \_\_\_\_\_

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.) (A) \_\_\_\_\_ [1]

**Purchased Auto** (B) \_\_\_\_\_ [1]  
 Amount employee contributed or percentage ownership interest  
 \*unreduced FMV

**Leased Auto** (C) \_\_\_\_\_ [1]  
 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 (A) - (B) - (C) \_\_\_\_\_  
 Annual lease value – table (D) \_\_\_\_\_

Personal use %  
 Total miles \_\_\_\_\_ [1]  
 Business miles \_\_\_\_\_ [1]  
 Personal miles \_\_\_\_\_ [1]

Personal miles/Total miles (E) \_\_\_\_\_ %

\*Personal value of annual lease (D) x (E) = (F) \_\_\_\_\_

If employer pays for fuel, multiply the number of personal miles driven by 5.5 cents per mile. (G) \_\_\_\_\_

Expenses paid by employee personally (H) \_\_\_\_\_ [1]

Total employee taxable income (F) + (G) - (H) \_\_\_\_\_ [1]

\* 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



(4 times the regular rate) applied.

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

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 \$15,900 for autos first made available in 2017 or \$15,900 for autos first made available in 2018 and \$17,800 for trucks and vans first made available in 2017 or \$17,800 for trucks and vans first made available in 2018 (passenger autos built on a truck chassis, including minivans and sport-utility vehicles (SUVs) built on a truck chassis), and 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, 2017 to December 31, 2017	_____	x \$0.535	\$ _____
			=
Enter personal miles driven January 1, 2018 to November 30, 2018	_____	x \$0.545	\$ _____
			=
Enter miles for which employee paid for fuel	_____	x \$0.055	\$( _____ )
			=
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	x <u>\$3.00</u>
Total employee taxable income	\$	\$ _____

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



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1. *A board or shareholder-appointed, confirmed or elected officer whose compensation equals or exceeds \$110,000*
2. *A director or*
3. *A one percent or greater owner of the business or an employee whose compensation equals or exceeds \$220,000 for 2018.*
4. *For governmental employees, a “control employee” is an elected official or a governmental employee whose compensation equals or exceeds \$153,800 for 2018.*



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**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**

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

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.