

REPORTING COMPANY AUTOMOBILE EXPENSES

We at GMS Surgent have been asked by our clients to provide specific guidance as to the proper reporting of company automobile expenses as taxable employee compensation. The determination of taxability is dependent upon whether the automobile was used by an employee for business (excludable) or personal (includable) use.

EXCLUDABLE FROM COMPENSATION

Reimbursement of business use miles - The reimbursement of employee business mileage using the standard mileage rate (54.5 cents in 2018) is NOT includable as taxable compensation to employees who substantiate the business usage to their employer. Such substantiation must contain the date, mileage, destination, and business purpose of the trip.

NOTE: If reimbursement is for more than the standard mileage rate, the amount in excess of the standard mileage rate is includable as additional taxable compensation.

Example of Excess Mileage Rate Reimbursement:

Reimbursed	3,000	miles	@	\$0.60		\$1,800
Less: Allowed	3,000	miles	@	\$0.545		-\$1,635
Taxable Compensation						\$165

If the excess mileage rate is paid, it is reported as income subject to income taxes and payroll taxes on Form W-2. The nontaxable portion is reported in Box 12 with Code L.

NOTE: If an employer pays the employee auto allowance and does not require the employee to substantiate the use of the allowance and does not require the employee to repay the unsubstantiated balance, then the full amount of the auto allowance is includable as additional compensation and no amount is reported in Box 12 on the Form W-2.

INCLUDABLE IN COMPENSATION

If an employee drives a company vehicle for personal use, including commuting back and forth to work, they must include the value of the personal use in their income. This can be done each pay period, monthly, annually, or whenever chosen. The compensation is subject to federal taxes, and the employer is required to withhold Social Security and Medicare. State tax treatment varies by state (for Pennsylvania, personal use of a company auto is not taxable).

The reporting and remittance of taxes on this compensation should occur within the same time frame as the company's normal requirements (monthly, semi-weekly, etc.).

There are three ways to figure personal use of a vehicle:

Commuting Use Method:

Under this rule, the employer determines the value of a vehicle it provides to an employee for commuting use by multiplying each one-way commute (that is, from home to work or from work to home) by \$1.50 (for 2018). If more than one employee commutes in the vehicle, this value applies to each employee. This amount must be included in the employee's wages or reimbursed by the employee.

The employer can use the commuting rule if all the following requirements are met:

- The employer provides the vehicle to an employee for use in a trade or business and, for bona fide noncompensatory business reasons, the employer requires the employee to commute in the vehicle.
- The employer establishes a written policy under which it doesn't allow the employee to use the vehicle for personal purposes other than for commuting or de minimis personal use (such as a stop for a personal errand on the way between a business delivery and the employee's home). Personal use of a vehicle is all use that isn't for trade or business.
- The employee doesn't use the vehicle for personal purposes other than commuting and de minimis personal use.
- The employee is not an owner or a "highly" compensated employee.

Cents-Per-Mile Method:

Under this rule, the employer determines the value of a vehicle it provides to an employee for personal use by multiplying the standard mileage rate by the total miles the employee drives the vehicle for personal purposes. Personal use is any use of the vehicle other than use in a trade or business. This amount must be included in the employee's wages or reimbursed by the employee. For 2018, the standard mileage rate is 54.5 cents per mile. The employer can use the cents-per-mile rule if either of the following requirements is met:

- The employer reasonably expects the vehicle to be regularly used in a trade or business throughout the calendar year (or for a shorter period during which it's owned or leased).
- The vehicle is actually driven at least 10,000 miles during the year and the vehicle is used during the year primarily by employees. (Consider the vehicle used primarily by employees if they use it consistently for commuting).

Once the Cents-Per-Mile Method is adopted for a particular vehicle, it must continue to be used in all subsequent years that the vehicle qualifies for use of the rule.

Annual Lease Value Method (ALV):

This method is the most widely used to determine the value of the personal use of company vehicles.

Generally, the annual lease value of an automobile is calculated as follows:

- Determine the fair market value (FMV) of the automobile on the first date it is available to any employee for personal use.
- Using the IRS Annual Lease Value Table 3.1 (<https://www.irs.gov/pub/irs-pdf/p15b.pdf>), read down column (1) until you come to the dollar range within which the FMV of the automobile falls. Then read across to column (2) to find the annual lease value.
- Multiply the annual lease value by the percentage of personal miles out of total miles driven by the employee.

The fair market value of the vehicle is determined when the vehicle is first made available to the principal driver. The fair market value is re-determined at the beginning of the fifth year, or if the principal driver has changed. When determining mileage for the year, commuting miles are considered to be personal miles, not business miles.

The employee should maintain some written record of their mileage, which is provided to their employer at least annually for use in determining personal usage.

In order to determine annual personal use of a company automobile, cut-off should be made no earlier than two months before the end of the year. If a vehicle is sold or traded during the year, mileage information to-date should be provided at that time.

The ALV method of calculating personal use can get complex. If you would like GMS Surgent to assist in this calculation, please complete the attached Auto Input Form and contact us to discuss.

AUTO INPUT FORM

Employer Name: _____

Employee Name: _____

Current Year Information

	<u>Auto #1</u>	<u>Auto #2</u>
Description of auto:	_____	_____
Year:	_____	_____
Make:	_____	_____
Model:	_____	_____
Date made available for personal use:	_____	_____
Date sold/traded-in (if applicable):	_____	_____
Cost of auto:	_____	_____
Mileage (11/1/2017 thru 10/31/2018):	_____	_____
Business miles:	_____	_____
Commuting miles:	_____	_____
Other personal miles:	_____	_____
Total miles:	_____	_____
Odometer reading:	_____	_____
Is fuel paid by employer? (yes or no)	_____	_____
Was auto available for personal use during off-duty hours? (yes or no)	_____	_____
Did you have another auto available for personal use? (yes or no)	_____	_____
Are you an officer or 1% owner of the business? (yes or no)	_____	_____
Does your employer withhold local tax? (If yes, indicate rate _____%)	_____	_____
Does your employer withhold state tax? (If yes indicate which state _____)	_____	_____
Will you be over the Social Security limit for 2018 - \$128,400? (yes or no)	_____	_____

Signature: _____ Date: _____

About Us

GMS Surgent is a mid-sized, full service, certified public accounting and advisory firm serving business and individual clients located primarily (but not limited to) the Greater Philadelphia area. We warmly invite you to click around our website to learn a little more about our firm, our clients and the ways in which our services could benefit you.

"Personal Attention – Valuable Results", is the principal component of our mission statement. It highlights the GMS Surgent commitment to forging strong relationships and ensuring constructive communication while earning consistently effective results for our clients. It plays an essential role throughout every aspect of our firm, guides our actions and acts as a benchmark for the services we provide.

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