Personal Use of University Provided Vehicles
Updated 10/4/21

Overview:

Under the internal revenue code, a vehicle provided by the University to an employee that is used for business is considered a "working condition fringe benefit" and no portion of the value of the vehicle need be included in the wages of the employee. However, if any portion of the annual miles driven is used for personal purposes, an allocation based on the mileage should be used to determine the amount of personal use that does become taxable to the employee. The regulations are the same whether the car is owned by the University or owned or leased by a third party (e.g. dealership, foundation, etc.) for the benefit of a University employee.

The personal use of a vehicle is defined by the IRS as any use that is not for the employer's trade or business. An example of personal use does include the commute to and from work.

According to IRS Reg. 1.61-21(a) the fair market value of personal usage of University-provided vehicle(s) is to be treated as taxable income and included in the wages of the employee subject to applicable withholdings. *Exception: De minimis fringe benefit – If the employee uses a fleet or other occasionally provided vehicle for University business with infrequent side trips for personal reasons, this would be considered de minimis fringe benefits whose value is excluded from income.*

The IRS allows for few calculation methods for determining the fair market value of personal usage and subsequent amount of income to be imputed to the employee for the personal use of provided vehicles. In the University environment, the Annual Lease Value Method is the appropriate method.

Annual Lease Value Method:

Under this method, the fair market value of an employee's personal use of a provided vehicle is determined by multiplying the annual lease value of the vehicle (as derived from taking the Annual Lease Value from the IRS table based on the Automobile's Fair Market Value as of the date put into service – Appendix A) times the percent of personal miles driven.

The fair market value of a new vehicle can be estimated by estimated in one of two ways:

1) Ninety-two percent of the manufacturer's suggested retail price, including normal purchase expenses such as sales taxes (https://www.umsystem.edu/ums/policies/finance/sales_tax), and title fees.
2) One hundred and four percent of the manufacturer's invoice price including normal purchase expenses such as sales taxes (link above) and title fees.

The fair market value of a used vehicle can be determined by using the Private Party Value found in the Kelley Blue Book (www.kbb.com) with the addition of sales tax (https://www.umsystem.edu/ums/policies/finance/sales_tax) and title fees thatwould be required for purchase.

These calculated values should be used for subsequent tax years that the employee retains the vehicle. After four full calendar years of use of the vehicle, the Fair Market Value, and subsequent Annual Lease Value, should be adjusted to reflect the change in the vehicles value for calculating the value of an employee's personal use.

If the vehicle is provided to the employee for less than an entire calendar year the calculated Annual Lease Value should be prorated by multiplying it by the fraction represented by using the number of days of availability to the employee (vacation and sick leave do not count as unavailability) as the numerator and 365 as the denominator.

> *For Example:* John Doe, a staff member with the Payroll department on campus, is provided a 2003 Ford Excursion with 36,000 miles as part of their employment. The percent of personal miles driven by John is 17% and he used the vehicle for the entire year. According to Kelley Blue Book (www.kbb.com) it has a private party value of $20,375.00. With the addition of taxes and fees, the effective Fair Market Value becomes approximately $21,900.00. Referencing the IRS Annual Lease Value Table (Appendix A) this equates to an Annual Lease Value of $5,850. The taxable portion to be reported to the Payroll Office for adding to the employees taxable income would therefore be:
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> 17% X $5,850 X (365/365) = **$994.50**

Accounting for Vehicle Use:

University employees must account for all miles driven. Any miles not substantiated as business purpose will be considered personal miles and taxed appropriately. Substantiation should include the mileage driven, time and place of travel, and the business purpose for the travel. It is the Division Fiscal Officer's responsibility to ensure that business miles are substantiated appropriately and that the taxable value of any personal miles be reported to payroll for inclusion in the employee's taxable income.

The annual reporting period is from November 1 of one year to October 31 of the next. The taxable value of personal use should be reported to payroll by November 15 (e.g. for tax year 2020 - the reporting period is November 1, 2019 through October 31, 2020 to be reported to payroll by November 15, 2020). The taxable value will then be added to the employee's pay across the regularly scheduled pay periods remaining in the current tax year. The employee should be instructed to use the same schedule to account for expenses related to filing their personal tax return.

Miscellaneous Reimbursements:

Certain expenses incurred by the employee (e.g. fuel) if not reimbursed by the University may be deductible for the employee as un-reimbursed business expense when determining their itemized miscellaneous deductions. If the department chooses to reimburse actual expenses such as fuel they are not taxable to the employee as long as the vehicle is used entirely for business purpose. However, if a portion of the annual miles are for personal use, the same proportional allocation based on those miles should be used to determine the amount of these reimbursements that becomes taxable to the employee. The result should be added to the taxable amount calculated using the Annual Lease Value Method covered previously to determine the total taxable amount to be added to the employees taxable earnings.

NOTE: The value represented by the Annual Lease Value table includes the fair market value of maintenance and insurance. So, these expenses, if reimbursed by the University for a provided vehicle, should not be included when calculating the taxable personal percentage. It is also important to note, however, that if the employee personally pays for maintenance or insurance this value cannot be deducted from the Annual Lease Value for calculating inclusion income on the employees W-2.

Appendix A: Annual Lease Value Table 2020 Tax Year

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

For automobiles with a FMV of more than $59,999, the annual lease value equals (.25 × the FMV of the automobile) + $500.