

Taxable Fringe - Personal Use of State Vehicle

EXIT Resources

IRS Publications

- 5177 Fringe Benefit Guide
- 5138 Quick Reference Guide for Public Employers
- 15-B Employer's Tax Guide to Fringe Benefits



Commuting Rule

To report using this rule, the following conditions must be met:

- Must be used for the employer's business
- Must be used for the employer's business
- Must be used for the employer's business



Reporting

State of Vermont utilizes the IRS' special accounting rule which allows the State to treat the value of taxable non-cash benefits as "paid" on an annual basis, and to treat benefits provided during the last two months of a calendar year as "paid" in the next year.

Note: Year 1 will run 9 months only. From 2/7/2016 through 10/31/2016.

Lease Value Rule

This rule is used for reporting when benefit zones include the Commuting Rule (not for cash).

- Employer's contribution must be used for the employer's business
- Employer's contribution must be used for the employer's business



Exclusions

More than one exclusion

- Exclusion 1: ...
- Exclusion 2: ...

Overview

This presentation will cover taxable fringe rules, show how each rule may impact an employer's payroll, and include examples of reports used for each rule that will ultimately be forwarded to VTRM for taxation.



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Lease Value Rule

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- Employment
- Reporting

Exclusions

More than one exclusion

- Exclusion 1
- Exclusion 2

Overview

This presentation will cover taxable fringe rules, show how each rule may impact an employer's payroll, and include examples of reports used for each rule that will ultimately be forwarded to VTRM for taxation.

Overview

This presentation will cover **Taxable Fringe** rules, show how each rule may impact an employees' pay/taxes, and include examples of reports used for each rule that will ultimately be forwarded to VTNR for taxation.

Guide

February 21, 2016, Secretary Johnson released **Bulletin 2.3: State Vehicle Policy**. This Bulletin was written to guide Business Managers and Employees with reporting of their personal use of State assigned vehicles for compliance with the IRS rules on taxation of taxable fringe.

IRS Rule

IRS requires an employee's personal use of a State vehicle, including commuting, be treated as a 'fringe benefit'.

"any use of a company-provided vehicle that is not substantiated as business use is defined by the IRC to be personal use and is included in income".

This is not a new ruling by the IRS, the State of Vermont is coming into compliance with an existing law.

State of Vermont

The 'fringe' is for employees who have a state owned vehicle assigned to them which they are able to drive to/from their work site and is kept at their home 100% of the time. The IRS has imposed 2 rules that add the value of this benefit as taxable income to the employees who receive it.

 **Commuting Rule**

 **Lease Value Rule**

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Commuting Rule



Lease Value Rule

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- Employer's responsibility
- Employee's responsibility

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Overview

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Commuting Rule

To report using this rule, the following conditions must be met:

- Vehicle is owned/leased by the State of Vermont
- Vehicle is provided to Employee for Business use
- Employee does not use vehicle for personal use other than commuting
- Employee is not a Control Employee (i.e. elected official)
- State of Vermont requires the employee commute between their residence and their officially designated work location 12 or more times per year.

If more than one employee commutes in the vehicle, this value applies to each employee. Unless the employee reimburses this amount to the employer, the amount is included in the employee's wages.

Department's Responsibility

- 1 Notify employees of their responsibility for tracking/reporting their commutes to/from work site.
- 2 By January 31st or within 30 days of receiving a vehicle, notify employees in writing regarding taxable income to them and that Federal and State tax will **NOT** be deducted bi-weekly.
- 3 Provide employees with Bulletin, procedures and a mechanism for the employee to use in tracking their commutes.

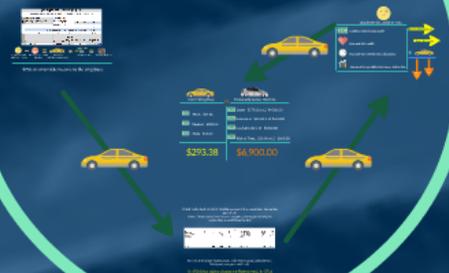


Employee's Responsibility

- Comply with the Agency of Administration's Bulletin 2.3 State Vehicles and its appendices.
- Maintain a log to document dates/number of commutes to/from work site.
- Complete and submit log to Department Contact Person along with completed/signed PUSV3_EE Release Form.



Pay Examples



Department's Responsibility

- 1 Notify employees of their responsibility for tracking/reporting their commutes to/from work site.
- 2 By January 31st or within 30 days of receiving a vehicle, notify employees in writing regarding taxable income to them and that Federal and State tax will **NOT** be deducted bi-weekly.
- 3 Provide employees with Bulletin, procedures and a mechanism for the employee to use in tracking their commutes .



PERSONAL USE OF STATE VEHICLES - COMMUTING RULE

Sample Log for Employees Use in Tracking Commutes

→ Departments Must Submit Form Annually by November 25th to VTHR Operations Division

A. Employee Name	Phineas Flynn				
B. Employee ID #	99999				
C. Department Name	VTHR Operations				
D. Work Site Location	120 State Street, Montpelier				
E. Department Contact Person	Selena Supervisor				
F. Report Period:	November 1,	2015	to October 31,	2016	
	<i>Enter Start Year- YYYY</i>				(e)
	IRS Fringe Benefit Rate per One-Way Commutation:				\$1.50
	(a)	(b)	(c)	(d)	(f) = d x e
D. Employee Name				Total One-Way Commutations	Taxable Fringe Benefit Amount
1	11/9/2015			2	\$3.00
2	11/10/2015			2	\$3.00
3	11/11/2015			2	\$3.00
4	11/12/2015			2	\$3.00
5	11/13/2015			2	\$3.00
6	TOTAL TAXABLE FRINGE BENEFIT				\$15.00





At least annually in November, complete and submit to VTHR, Form **PUSV1_Commute** for all employees within your Department that are subject to the commuting rule.

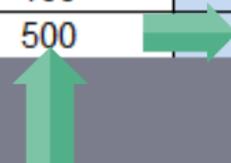
Note: Departments may internally establish a procedure to submit more than once annually.

PERSONAL USE OF STATE VEHICLES - COMMUTING RULE

Department Reporting of Taxable Employee Fringe Benefits

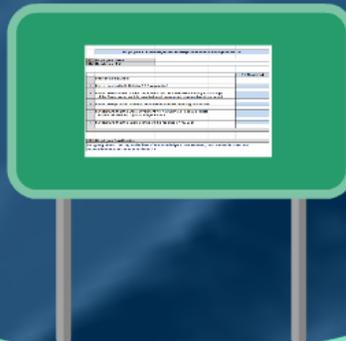
→ Departments Must Submit Form Annually by November 25th to VTHR Operations Division

C. Department Name		VTHR Operations			
E. Department Contact Person		Selena Supervisor			
F. Report Period: November 1,		2015	to October 31,		2016
<i>Enter Start Year- YYYY</i>					
					(e)
IRS Fringe Benefit Rate per One-Way Commutation:					\$1.50
(a)		(b)	(c)	(d)	(f) = d x e
D.	Employee Name	Employee ID	Active Employee ?	Total One-Way Commutations	Taxable Fringe Benefit Amount
1	Phineas Flynn	99999	YES	10	\$15.00
2	Betty Boop	88888		100	\$150.00
3	Fred Flinstone	77777	UNKNOWN	500	\$750.00



Employee's Responsibility

-  Comply with the Agency of Administration's Bulletin 2.3 State Vehicles and its appendices.
-  Maintain a log to document dates/number of commutes to/from work site.
-  Complete and submit log to Department Contact Person along with completed/signed PUSV3_EE Release Form.



Employee Acknowledgement of Responsibilities & Receipt of Forms

D. Employee Name

E. Employee ID #

/ if Received

I hereby acknowledge:

→ I have received both Bulletin 2.3 & Appendix A

→ I have been informed by my Department that personal use (including commuting) of the State owned vehicle provided must be reported as a taxable fringe benefit

→ I have been provided with my Department's internal reporting procedures

→ I understand that the State of Vermont will not withhold Federal or State income tax from the reported fringe amount

→ I understand that the taxable fringe will be reported on my W-2

F. Employee Certification

By signing below, I certify, to the best of my knowledge, I have received, read and understand my responsibilities as outlined in Bulletin 2.3.

PERSONAL USE OF STATE VEHICLES - COMMUTING RULE					
Department Reporting of Taxable Employee Fringe Benefits					
→ Departments Must Submit Form Annually by November 25th to VTHR Operations Division					
C. Department Name	VTHR Operations				
E. Department Contact Person	Selena Supervisor				
F. Report Period:	November 1,	2015	to October 31,	2016	
<i>Enter Start Year- YYYY</i>					
(e)					
IRS Fringe Benefit Rate per One-Way Commutation:					\$1.50
	(a)	(b)	(c)	(d)	(f) = d x e
D.	Employee Name	Employee ID	Active Employee ?	Total One-Way Commutations	Taxable Fringe Benefit Amount
1	Phineas Flynn	99999	YES	500	\$750.00



2,080 hrs / year
(260 days / year)

80 hrs annual leave
(10 days)

2,000 hrs
(250 days work travel)

2 trips per day

500 trips @ \$1.50

\$750.00 of taxable income to the employee

VTHR adds the \$750.00 of taxable income to the Employee's December pay check.

(Note: These manual entries are charged to the employee's default accounting as established on Job).

HOURS AND EARNINGS						TAXES		
Description	Rate	Current		YTD		Description	Current	YTD
		Hours	Earnings	Hours	Earnings			
Regular Hours	34.61	80.00	2,768.80	360.00	12,459.60	Fed Withholding	425.20	2,553.97
TAXABLE FRINGE - AUTO			750.00		750.00	Fed MED/EE	48.07	234.20
Sick Leave			0.00	13.00	449.93	Fed OASDI/EE	205.54	1,001.41
Annual Leave			0.00	67.00	2,318.87	VT Withholding	108.69	652.89
Personal Leave			0.00	8.00	276.88			
Holiday			0.00	32.00	1,107.52			
TOTAL:		80.00	2,768.80	480.00	16,612.80	TOTAL:	787.50	4,442.47

At the time the pay is processed, only FICA (Social Security and Medicare) taxes are withheld.

On \$750.00 the additional amount of FICA tax would be \$57.38



Employee Files Single 1040 EZ



Making \$66,000 annually



Has pre-tax health



Has pre-tax retirement deductions



Has an average deferred comp deduction

\$1,995.00 Federal

\$529.00 State



\$188
Fed

\$48
State



Commuting Rule



FICA - \$57.38



Federal - \$188.00



State - \$48.00

\$293.38



Personally Leased Vehicle

vs.



Lease - \$375.00 x 12 - \$4500.00



Insurance - \$50.00 x 12 - \$600.00



Gas \$100.00 x 12 - \$1200.00



Maint, Tires... \$50.00 x 12 - \$600.00

\$6,900.00



Lease Value Rule

This rule is used for employees who **do not** meet criteria for Commuting Rule mainly because:

-  a vehicle is permanently assigned to an employee and authorized for commuting/personal use
-  commuting (personal use) is not required by Employer for bona fide business reasons,
-  or the employee meets the definition of a “control employee” (Bulletin 2.3, Section B. Definitions; Part 1 Salary Threshold)

Fair Market Value

Under this rule, employer would first determine the **Fair Market Value (FMV)** of the vehicle on the date it is available to the employee for personal use.

-  **FMV** is the amount a prudent person would pay, including all related purchase expenses, to buy the vehicle from a third-party in an arm's length transaction for the geographic area.
-  Safe Harbor Value may be used as **FMV** for any automobile purchased at arm's length.
 -  If vehicle is owned
 -  If leased
 -  Manufacturer's invoice price plus 4%
 -  Manufacturer's suggested retail price minus 8%
 -  Reasonable retail value reported by nationally recognized pricing source

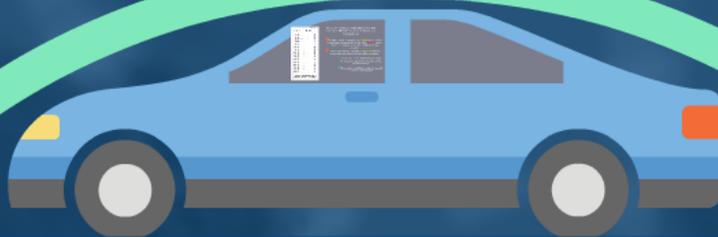
Departments Responsibility

-  Notify employees of their responsibility for tracking/reporting their commutes to/from work site.
-  By January 31st or within 30 days of receiving a vehicle, notify employees in writing regarding taxable income to them and that Federal and State tax will **NOT** be deducted bi-weekly.
-  Provide employees with Bulletin, procedures and a mechanism for the employee to use in tracking their commutes .
-  Submit to VTHR at least annually by November 25th, completed Form **PUSV2_LeaseValue** for all employees within your Department that are subject to the Lease Value rule.

Employee's Responsibility

-  Comply with the Agency of Administration's Bulletin 2.3 State Vehicles and its appendices
-  Maintain a log to document dates/number of commutes to/from work site.
-  Complete and submit log to Department Contact Person along with completed/signed **PUSV3_EE Release Form**.





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-  If vehicle is owned

-  If leased

-  Manufacturer's invoice price plus 4%

-  Manufacturer's suggested retail price minus 8%

-  Reasonable retail value reported by nationally recognized pricing source

Table 3-1. Annual Lease Value Table

(1) Automobile FMV	(2) Annual Lease
\$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 x the FMV of the automobile) + \$500.

Table 3-1 Annual Lease Value Table is from IRS Publication 15B and published in Bulletin 2.3 as Attachment III.



Maintenance and Insurance are **included** in each of the annual lease values provided in the table. **Do NOT** reduce the annual lease value reported by either of these amounts.



Fuel for personal use, however, is **not included** in the annual lease value and is accounted for separately.



The Annual Lease Value is then multiplied by the percentage of personal miles driven by the employee.



The amount would then be added as taxable income to the employee.

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PERSONAL USE OF STATE VEHICLES - LEASE VALUE RULE

Sample Log for Employees Use in Tracking Mileage

→ Departments Must Submit Form Annually by November 25th to VTHR Operations Division

A.	Employee Name	Phineas Flynn					
B.	Employee ID #	99999					
C.	Department Name	VTHR Operations					
D.	Home Based Location	120 State Street, Montpelier					
E.	Department Contact Person	Sullivan Supervisor					
F.	Vehicle Annual Lease Value (Prorate if less than full	FMV = \$26,000	ANNUAL LEASE VALUE:			\$7,250	
G.	Is Fuel Paid for by State of Vermont	YES					
H.	Report Period: November 1,	2015		to October 31,		2016	
<i>Enter Start Year- YYYY</i>							(k)
IRS' Fuel Cost per Mile:							0.055
	(a)	(e)	(f)	(g) = e + f	(h) = e ÷ g	(l) = e x k	
		Personal Miles Driven (include Commuting)	Business Miles Driven	Total Miles Driven		Fuel Value-Personal Miles	Taxable Fringe Benefit Amount
F.	Date of Commute						
1	11/1/2016	10	175	185		\$0.55	
2	11/2/2016	0	150	150		\$0.00	
3	11/3/2016	0	75	75		\$0.00	
4	11/4/2016	5	200	205		\$0.28	
5	11/5/2016	5	200	205		\$0.28	
	TOTAL	20	800	820	2.44%	\$1.10	\$177.93



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Lease Value Rule

This rule is used for reporting when an employer provides a company car for an employee's personal use.

- Employer's obligation
- Employee's obligation

Exclusions

More than one exclusion

- Exclusion 1
- Exclusion 2

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This presentation will cover taxable fringe rules, show how each rule may impact an employer's payroll, and include examples of reports used for each rule that will ultimately be forwarded to VTRM for taxation.



CAUTION

If/when an employee terminates employment, along with returning the vehicle, Department's will be required to obtain the log from the employee and submit to VTHR the required PUSV1 OR PUSV2 form. Taxable income would then be applied in the employee's final pay.



Exclusions

Many Many exclusions!!!!!!!



Vehicle Type – if the employee has been assigned a vehicle that meets specific descriptions, then they would be excluded from taxation.



De Minimis fringe benefit – Infrequent commuting of not more than once per month or 12 times per year. For employees that exceed the de minimis threshold, the 12 commuting days are reportable and taxable.

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BGS

Fleet Management Services (FMS) within the Department of Buildings & General Services

[Fleet Management Services](#)

7 Green Mountain Drive

Montpelier, Vermont 05620-4502

(802) 828-3821

Email: fleet.services@vermont.gov

Agency of Administration's Bulletin 2.3:

STATE OF VERMONT AGENCY OF ADMINISTRATION			
Bulletin Title:	State Vehicles Policy	Bulletin #:	2.3
Appendix A:	Taxable Fringe Benefit – Personal Use of State Vehicles	Effective Date: Rev. Date:	02/21/2016 N/A
Issued by:	Justin Johnson, Secretary of Administration	Page:	1 of 9

VTHR

VTHR Help Desk 802-828-6700

**Submission of official forms
Payroll issues
Taxation
W-2 reporting**

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