Tax Section

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2023 Vehicle Policy and Income Inclusion Guide

Introduction

Employer policies regarding the use of company vehicles | page 2

Three policies have been included that may be provided to employers as examples:

1. Policy prohibiting all personal use of company vehicles
2. Policy prohibiting all personal use of company vehicles except commuting
3. Policy regarding the cutoff date to calculate the value of personal use of company-owned vehicles

Policies 1 and 2 are optional for an employer. Policy 3 is required in some form by all employers providing company-owned personal use vehicles. The policies should be reviewed to determine if there are conflicts with state or local laws.

Employee representation regarding the use of company vehicle | page 4

The IRS requires employers to provide information on their tax returns with respect to the vehicles provided to employees. This information is also used to calculate the amount of the taxable fringe benefit to be included in the employee's Form W-2, Wage and Tax Statement. Employees are required to represent their employer regarding the business/personal use of the company vehicle provided to the employee for their use.

Worksheet to calculate income from personal use of company vehicle | page 5

The IRS requires the value of the personal use of employer-provided vehicles to be included in the employee's compensation if the employee does not reimburse the employer. Forms are included for the employer to collect the necessary data from the employee and calculate the value of the personal use.

Worksheet to calculate inclusion amount for leases of luxury vehicles | page 8

The IRS requires lessees of luxury vehicles to calculate an inclusion amount in their gross income. Taxpayers who have leased a vehicle for a term of at least 30 days must consider this inclusion amount. Using the inclusion amount, the law, attempts to limit the taxpayer's lease payment deductions to the amount that would have been deductible under the limited depreciation rules had the taxpayer purchased the vehicle.

Employer policies regarding the use of company vehicles

1) Policy prohibiting all personal use of company vehicles

Management has adopted the following policy regarding personal use of company-owned vehicles:

- Vehicles this company owns or leases are to be used solely for company business. There shall be no personal use of the vehicles (including commuting to and from work). Individuals driving company vehicles may have occasions where an incidental stop is necessary between business stops, and such use shall not be considered a violation of this policy.

- The company requires that vehicles not in use be parked in designated areas on the company's premises. No personal items are to be stored in the vehicles. Company materials and supplies are to be secured in the trunk or lock boxes, or within the company's offices.

- Keys are to be returned to ______________________________ upon the close of business each day.

2) Policy prohibiting all personal use of company vehicles except commuting

Management has adopted the following policy regarding personal use of company-owned vehicles:

- For business reasons, certain employees have been designated to drive a company-owned vehicle to and from their residence. This shall be the only authorized personal use of the vehicle. Individuals driving company vehicles may have occasions where an incidental stop is necessary between business stops. Such use shall not be considered a violation of this policy.

- The company requires that no personal items other than incidentals be stored in the vehicle. The vehicle is to be locked when not in use with work articles stored in the lockbox or trunk when the vehicle is not in use.

- The company will compute a daily value for the commuting, which will be included in the employee's Form W-2 at the end of the calendar year. Such an amount will be the minimum allowed by federal income tax laws.

Note: IRS regulations require the company to maintain evidence that would enable the IRS to determine whether the use of the vehicle is in accordance with a policy maintained by the company.

3) Policy regarding the cut-off date to calculate the value of personal use of company-owned vehicles

Management has adopted the following policy regarding the computation of the taxable value of the personal and commuting use of company-owned vehicles:

– The personal and commuting use of company vehicles will be computed for the 12 months ending ______________________________ (Oct. 31, Nov. 30 or Dec. 31).

– Annually, the company requires you to provide a complete accounting of the personal use of the vehicle as of ______________________________. The taxable value of the personal use will be computed using the least costly method allowable by tax law.

– This income will be considered paid as of ______________________________ and federal, state and local income taxes (if appropriate) and Social Security/Medicare tax withholding will be deducted from your ______________________________ paycheck.

Or

– The taxable value and related withholding tax will be reflected on your Form W-2. Please address your questions to ______________________________ .

– The company may elect to withhold only Social Security/Medicare taxes. If so, the paragraph should read as follows:

This income will be considered paid as of ___________________________________ and Social

Security/Medicare withholding taxes will be deducted from your ________________________ paycheck.

Employee representation regarding use of company vehicle

The IRS generally requires that written records be maintained to document the business use of vehicles.

Since the company policy requires employees to maintain the detailed records, please provide answers to the following questions. If you were provided more than one vehicle used during the year, you must prepare a separate statement for each vehicle.

The completed form must be returned no later than ____/____/____ or 100% of the value of the use of the vehicle will be included in your Form W-2 income.

Description of vehicle ________________________________

Reporting period from ________________________________ to ________________________________

Odometer reading: beginning ________________________________ ending ________________________________

Employee representation

	Yes	No
1. Was the vehicle available for your personal use during off-duty hours?	☐	☐
2. Did you have another vehicle available for your personal use?	☐	☐
3. Are you an officer or 1%-or-more owner of the business?	☐	☐
4. How many commuting round trips did you make in this vehicle?	________________	
5. For the reporting period specified above, please provide the number of miles for each of the following categories:		
Commuting miles	________________	
Other personal (non-commuting) miles	________________	
Total commuting and other personal miles	________________	
Total business-use miles	________________	
Total miles	________________	
6. Did the employer pay the cost of fuel consumed by this vehicle?	☐	☐

________________________________ ________________

Employee signature Date

Worksheet to calculate income from personal use of company vehicle

Employer's worksheet to calculate the employee's taxable income resulting from the employer-provided vehicle for calendar year 2023.

Employee ____

Description of vehicle ____

Date vehicle first made available to any employee _______________________

Date vehicle first made available to this employee _______________________

There are several methods available to determine the value of employer-provided automobiles that are explained in detail by IRS Publication 15-B, *Employer›s Tax Guide to Fringe Benefits*. The methods include:

- Lease value rule
- Cents-per-miles rule
- Commuting rule
- General valuation rule

The methods are further detailed in the following sections. Note that there are usually limitations on the cents-per-mile rule and the commuting rule.

Method I — Lease value rule (for vehicles available 30 days or more). For vehicles less than 30 days, see below.[1]

Fair market value of the vehicle (to be redetermined at the beginning of the fifth year and every four years after that)	$ ____________________
Annual lease value, per the attached chart (shown below)	$ ____________________
Multiplied by the number of days during the year that the vehicle was available	x ____________________
Divide by the number of days in the tax year	÷ ____________________
Prorated annual lease value	= ____________________
Multiplied by the personal use % (personal/total miles per employee statement)	x ____________________%
Personal annual lease value	= ____________________
If the employer provides fuel, add the following:	
personal miles ______________ x ______________ [2] =	+ ____________________
Personal use taxable income	= $ ____________________

Method II — Cents-per-mile rule

Generally, to qualify to use the cents-per-mile rule, the vehicle must: (1) be expected to be regularly used in the employer's business throughout the calendar year or be driven at least 10,000 miles per year and (2) the date it is first made available to any employee for personal use, the standard automobile cost may not exceed the value of $60,800 for passenger automobiles (including trucks and vans) placed in service on or after Jan. 1, 2023. Once this method is adopted for a vehicle, it must be continued until it no longer qualifies.

Enter personal miles)	________ x $0.65 =	$ ____________________
If fuel is NOT provided by the employer, enter personal miles	________ x $0.055 =	(____________________)
Personal use taxable income		$ ____________________

[1] Daily lease value — For autos available for at least one day but less than 30 days, the prorated annual lease value is determined by multiplying the annual lease value by a fraction; the numerator is four times the number of days of the auto's availability, and the denominator is 365. A 30-day period may be used even if the availability is less than 30 days if it produces a lower valuation.

[2] Generally, where fuel is purchased and charged to the employer, the actual cost of the fuel should be used in computing this additional income inclusion amount. Alternatively, a rate of $0.055 per personal use mile can be used if auto usage is within the U.S., Canada and Mexico. If employers with 20 or more vehicles reimburse or allow employees to charge personal fuel costs, the fleet average cents-per-mile rate may be used. If the fleet employer determines that the actual cost or fleet average methods are unreasonable administrative burdens, the $0.055 per personal mile rate may be used.

Method III — Commuting rule

This method may only be used for vehicles covered by a written policy that allows commuting but no other personal use. Do not use this method if the employee is a “control employee” (i.e., they are a 1%-or-more owner, a director, an officer with compensation of $130,000 or more or an individual with compensation of $265,000 or more).

Number of commuting round trips made		____________
Value per round trip	x	$3.00
Personal use taxable income	= $	____________

Method IV — 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.

Annual lease value table

Automobile fair market value	Annual lease value
$ 0–999	$ 600
1,000–1,999	850
2,000–2,999	1,100
3,000–3,999	1,350
4,000–4,999	1,600
5,000–5,999	1,850
6,000–6,999	2,100
7,000–7,999	2,350
8,000–8,999	2,600
9,000–9,999	2,850
10,000–10,999	3,100
11,000–11,999	3,350
12,000–12,999	3,600
13,000–13,999	3,850
14,000–14,999	4,100
15,000–15,999	4,350
16,000–16,999	4,600
17,000–17,999	4,850
18,000–18,999	5,100
19,000–19,999	5,350
20,000–20,999	5,600
21,000–21,999	5,850

Automobile fair market value	Annual lease value
$ 22,000–22,999	$ 6,100
23,000–23,999	6,350
24,000–24,999	6,600
25,000–25,999	6,850
26,000–27,999	7,250
28,000–29,999	7,750
30,000–31,999	8,250
32,000–33,999	8,750
34,000–35,999	9,250
36,000–37,999	9,750
38,000–39,999	10,250
40,000–41,999	10,750
42,000–43,999	11,250
44,000–45,999	11,750
46,000–47,999	12,250
48,000–49,999	12,750
50,000–51,999	13,250
52,000–53,999	13,750
54,000–55,999	14,250
56,000–57,999	14,750
58,000–59,999	15,250

For vehicles having a fair market value over $59,999, the annual lease value is equal to: (0.25 x automobile fair market value) + $500.

Worksheet to calculate inclusion amount for leases of luxury vehicles

Taxpayers who lease a passenger automobile for use in their business can deduct the part of the lease payment that represents the business use. However, Sec. 280F requires the deduction to be reduced by an amount that is substantially equivalent to the depreciation deductions limits imposed on owners of passenger automobiles to attempt to balance out the tax benefits of leasing a luxury car as opposed to purchasing it. Thus, lessees must calculate an “inclusion amount” each year to achieve equal treatment imposed by depreciation deduction limits.

Description of vehicle ______________________________

Date of lease ______________________________

Lease term ______________________________

Fair market value of the vehicle at lease inception ______________________________

Tables one and two of [Rev. Proc. 2023–14] provide limitations on depreciation deductions for certain automobiles placed in service during calendar year 2023. Table three provides income inclusion amounts for passenger automobiles first leased in 2023. For vehicles with lease terms beginning before 2023, see the applicable table in the revenue procedure for the first year of vehicle lease.

Fair market value (FMV) of passenger automobile: $ ____________.[3]

		Tax year during the lease				
		1st	2nd	3rd	4th	5th
Multiply the FMV listed above by the number of days during the year that the vehicle was leased	x					
Divide by the number of days in the tax year	÷					
Prorated dollar amount	= $					
Business-use % (business/total miles)[4]	x					
Prorated inclusion amount	= $					

[3] The previous year’s dollar amount is used for the last tax year of the lease. For vehicles placed in service in 2023, if the FMV of the vehicle did not exceed $60,000, then no inclusion is necessary.

[4] Use 100% if all expenses are deducted by the employer and the personal-use value is added to the employee’s income.

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