

IRS APPROVED METHODS OF REPORTING FRINGE BENEFIT INCOME

1. Annual Lease Valuation Rule (This method can be used by any employee)

The fair market value of the vehicle will be determined through the use of a reliable method (such as the NADA Used Car Guide). The fair market value also includes all purchase expenses such as sales tax and title fees. The annual lease value will be taken from the following IRS table:

<u>Value Category</u>	<u>Automobile Fair Market Value</u>		<u>Annual Value</u>	<u>Biweekly Lease Value</u>
A	\$ 0	-- 999	\$ 600	\$ 23.08
B	1,000	-- 1,999	850	32.69
C	2,000	-- 2,999	1,100	42.31
D	3,000	-- 3,999	1,350	51.92
E	4,000	-- 4,999	1,600	61.54
F	5,000	-- 5,999	1,850	71.15
G	6,000	-- 6,999	2,100	80.77
H	7,000	-- 7,999	2,350	90.38
I	8,000	-- 8,999	2,600	100.00
J	9,000	-- 9,999	2,850	109.62
K	10,000	-- 10,999	3,100	119.23
L	11,000	-- 11,999	3,350	128.85
M	12,000	-- 12,999	3,600	138.46
N	13,000	-- 13,999	3,850	148.08
O	14,000	-- 14,999	4,100	157.69
P	15,000	-- 15,999	4,350	167.31
Q	16,000	-- 16,999	4,600	176.92
R	17,000	-- 17,999	4,850	186.54
S	18,000	-- 18,999	5,100	196.15
T	19,000	-- 19,999	5,350	205.77
U	20,000	-- 20,999	5,600	215.38
V	21,000	-- 21,999	5,850	225.00
W	22,000	-- 22,999	6,100	234.62
X	23,000	-- 23,999	6,350	244.23
Y	24,000	-- 24,999	6,600	253.85

Note: The IRS regulation contains further values for vehicles up to \$59,999.

By applying the "NADA" value to the make, year and model data for a vehicle, the biweekly lease value can be determined.

Please note that the annual lease values from the table are based on a 4-year lease term. The lease value will generally stay the same for the period that begins with the first date you use this special rule for the automobile and ends on December 31 on the fourth full calendar year following that date.

If an automobile is provided to an employee for a continuous period of 30 or more days but less than an entire calendar year, the annual lease value can be prorated. Compute the annual lease value by multiplying the annual lease value by the number of days of availability then divide by the total number of days in the year.

The following table lists the NADA fair market value by category of the most popular vehicles in the Central Motor Pool.

Popular State-Owned Vehicles Value Category:

Make/Model	Model Year						
	02	01	00	99	98	97	96
Chevrolet:							
Cavalier	P	L	J	I			F
Malibu	T						
K1500	W						
Dodge:							
Caravan	V	T	Q		M		
Neon					H		
Ram ½ Ton		O	N		K		
Ford:							
Aerostar						I	H
Crown Vic.			Q	M	L	J	
Styleside ½ Ton (4 x 4)					K	J	I
Taurus	V	O	L	J		I	
Plymouth:							
Voyager				N			
Neon						F	

Under this method, the employee is required to keep a trip log or other documentation record of business mileage (by odometer readings) recorded at or near the time the trip occurs. The balance of the total mileage driven, i.e., the difference between the end of the biweekly pay period and odometer reading at the beginning of the period, less the total business mileage recorded will be considered personal use.

Please note, the only personal use of a state vehicle allowed under state law, and then only in limited situations, is to commute between the employee's work station and their home.

At the end of each biweekly period, the trip log (record) will be totaled. The total mileage computed for the period minus the total logged business mileage will determine the personal use mileage.

The personal mileage will be divided by the total mileage to determine the personal mileage ratio or percentage. This personal mileage percentage will be applied to one-twenty sixth of the "annual lease value" and the result plus an additional amount of 5.5 cents per mile for personal use for fuel for the vehicle will be the biweekly amount to be reported as fringe benefit income of the employee for taxation purposes.

If this method is utilized, you must use the rule for all later years, in which the automobile is available to any employee, except that you may use the commuting rule for any year during which use of the automobile qualifies.

2. Commuting Valuation Method (This method can not be used by control employees)

This method may be used only if all the following requirements are met:

- a. The employer owns or leases the vehicle and provides it to one or more employees for use in the employer's trade or business.
- b. For a bona fide non-compensatory business reason, the employer requires the employee to commute in the vehicle.
- c. The employer establishes a written policy that limits the personal use of the vehicle to commuting and de minimis use (such as a stop for lunch between business stops).
- d. The employee does not use the vehicle for any personal purpose other than for commuting and de minimis use.
- e. The employee is not a control employee. Treasury Regulation 1.61-21(f)(6) defines a control employee of a government employer as 1) any elected official, or 2) any employee whose compensation equals or exceeds that of a federal employee at Executive Level V (for 2002, this amount is \$121, 600.00).

Under this alternate method, the commuting has an imputed value (by the IRS) of \$1.50 for each one-way trip from home to work or from work to home.

If the commuting rule is adopted on the first day you make an automobile available to any employee for personal use, you may change to either the annual lease rule or the cents-per-mile rule on the first day the commuting rule is no longer used.

3. Cents-Per-Mile Valuation Rule (This method can be used by any employee if the conditions listed below are met)

The Cents-Per-Mile Valuation Rule is the third option available to agencies for use in computing the taxable personal (commuting) use of state-owned or leased vehicle. To be eligible for this method, at least 50% of the vehicle's total mileage is used for the employer's trade or business, or the vehicle is primarily used by employees and the total mileage for the vehicle for the year exceeds 10,000 miles. The 10,000 miles can be comprised of both business and personal (commuting) miles or can be entirely personal (commuting) miles.

Please note that you can not use the Cents-Per-Mile rule for an automobile first made available to an employee for personal use in 2002 if the fair market value of the vehicle exceeds \$15,300.00.

Advantages of this method are that it is easy to use, and it may result in a lower value for taxable personal use. *The disadvantage is the necessity to maintain a daily travel log to substantiate the business/personal use mileage.* See Appendix C for a sample daily travel log.

The IRS approved mileage rate for use in the "Cents-Per-Mile Valuation Rule" is 36.5 cents per mile beginning January 1, 2002. *Please note that this Informational Circular does not impact the State's privately owned vehicle mileage reimbursement rate.*

Once adopted, the cents-per-mile should continue to be used for all later years in which the automobile is still available to the employee and the automobile qualifies. However, the commuting rule can be used for any year in which the automobile qualifies. If the vehicle does not qualify for the cents-per-mile rule during a later year, any other special rule can be adopted for that year and the years thereafter for which the vehicle qualifies.

EXAMPLES

Following are some typical situations and how they would be handled:

A. Annual Lease Valuation Method:

Employee A has a state vehicle (1999 Chevy Cavalier) assigned all year and must record mileage and report fringe benefit income based on the annual lease method. The "fair market value" of the vehicle from the "NADA" book is between \$8,000 and \$8,999 (value category "I"). The mileage log for the pay period indicates that a total of 1400 miles were traveled, of which 350 miles was for commuting. The annual lease value of the vehicle is \$2,600 (per the table). The calculation of the biweekly fringe benefit income is as follows:

Biweekly Lease <u>Value</u>	X	Personal Miles <u>Total Miles</u>	+	Fuel <u>Addition</u>	=	Fringe <u>Benefit Income</u>
<u>2,600</u> 26	X	<u>350</u> 1400	+	(350 X \$.055)	=	\$ 44.25

The amount of \$44.25 would be reported as a fringe benefit for the biweekly pay period.

- B. **Commuting Valuation Method**
Employee B has a state vehicle assigned all year and chooses the "Commuting Valuation Method" of reporting the fringe benefit income. The biweekly pay period from June 1 - June 14 has 10 regularly scheduled work days, so the employee would report \$30.00 (10 X [1.50 X 2]) for the period.
- C. **Commuting Valuation Method:**
Same as "B," except Employee B takes a two-week vacation during the month of which only one week is during the current biweekly, pay period. Employee B would report \$15.00 (5 X [1.50 X 2]) for the period. No fringe benefit income would be reported if the two-week vacation corresponds with the biweekly payroll period.
- D. **Commuting Valuation Method:**
Employee C commutes to and from the office in a state vehicle. This has been requested by the employer since there is no safe place to park the vehicle overnight at the official station. In this situation, Employee C would be liable to report a fringe benefit income utilizing the commuting method or the annual lease method of reporting. If the commuting method is used, the computation would be similar to "B" above.
- E. **Commuting Valuation Method:**
Employee D checks a daily trip vehicle out of the motor pool in Topeka on Monday. Since Employee D wants to get an early morning start on the official trip to Hays, the employee drives the vehicle home on the evening before the trip commences. Early the next morning (Tuesday), the employee drives to Hays and returns to Topeka Wednesday evening. Because the employee arrives late, the vehicle is kept at his home overnight (Wednesday) and returned to the motor pool Thursday morning. The fringe benefit income utilizing the commuting method would be \$4.50 including \$1.50 for the trip home on Monday, \$1.50 for the trip home Wednesday and \$1.50 for the trip to the work place on Thursday.
- F. **Cents-Per-Mile Valuation Method**
Employee E is allowed to use a state vehicle for commuting. During the biweekly pay period, Employee E drove the state vehicle 100 personal miles, based upon daily trip log recordings and the biweekly work sheet computations. All of the gasoline was furnished by the state agency. The reportable fringe benefit income using the cents per mile valuation rule would be \$36.50 (100 X \$.365) for the pay period.