Vehicle Usage
PCG-VEHUSE

The Division of Accounting (DOA) Payroll Compliance Group (PCG) is responsible for working with State of Delaware (State) Organizations to ensure effective controls are in place governing all vehicle usage.

Specific information concerning current mileage rates, per way values, definition of "control employees"/non-control employees and reporting guidelines are provided annually in the PHRST *New Calendar Year Start-Up Memorandum*.

The *Vehicle Commuting Computation Form*, and the *Vehicle Signature Statement and Computation Form* are posted to the PHRST website by calendar year. These forms provide the Federal mandated rate and must be signed by the employee and retained by the Organization.

Refer to the Internal Revenue Service *Publication 15-B, Employer's Tax Guide to Fringe Benefits*.

1 Definitions

1.1 <u>Imputed Income</u> – Addition of the value of cash/noncash compensation to an employee's taxable wages to properly withhold income and employment taxes on the value.

1.2 <u>Commuting Use</u> – The use of a State-issued vehicle to travel to and from an employee's residence. According to the Office of Fleet Management (GSS), commuting use is the only authorized "auxiliary" use of a State-issued vehicle. Commuting Use must be entered in the PHRST system. All passengers commuting in a State vehicle, with the exception of vanpools, are subject to all the same taxable income rules.

1.3 <u>Control employees</u> – Key or highly compensated individuals defined as follows:

- Government employee whose compensation is equal to or exceeds Federal Government Executive Level V, or
- An elected official

1.4 <u>Valuation Methods</u>

- *Cents-Per-Mile Method* – Federal Standard Mileage Rate per mile
    - o Requirements
        - Vehicle Fair Market Value (FMV)
            - ▪ Blue Book Value on the first day the vehicle is made available to the employee
            - ▪ Cannot exceed maximum automobile value set by IRS (Contact the Office of Fleet Management)
        - Vehicle is regularly used in business (50% and greater), or
        - Vehicle is driven over 10,000 miles during the year
    - o Taxable Benefit - Federal Standard Mileage Rate times the total miles driven for personal purposes

- *Commuting Value Method* – Federal Standard Rate per way
    - o May NOT be used by "Control Employees"
    - o Taxable Benefit - Federal Standard Rate times each one-way commute
    - o If more than one employee commutes in the vehicle, this value applies to each employee

- *Annual Lease Value Method* – Based on FMV of vehicle
  - Taxable Benefit
    - Determine the vehicle's FMV
      - On the first day vehicle is made available to the employee
      - Cannot exceed maximum automobile value set by IRS (Contact the Office of Fleet Management)
    - Determine Annual Lease Value from table
      - See Vehicle Signature Statement and Computation Form
    - Calculate the percentage of personal miles driven during the year
      - Personal Miles Driven / Total Miles Driven
      - Personal miles are at least the total commute distance
    - Calculate the FMV of the personal use of the vehicle
      - See Vehicle Signature Statement and Computation Form for calculation
    - Calculate the value of fuel used for personal miles
      - Personal Miles Driven **x** Federal Approved Fuel Rate
    - Add FMV of the personal use of vehicle to the value of fuel used for personal miles

Example: Employee drives an State-provided vehicle that is used for both business and personal reasons (includes commuting). Employee drove 15,000 miles during the year (10,000 business and 5,000 personal). The vehicle's FMV is $17,500. The amount of the vehicle's FMV that must be included in the employee's income for the year is calculated as follows:

Annual Lease Value of $17,500 vehicle (IRS Pub 15-B)		=	$4,850.00
% of personal miles is	*5,000 / 15,000 =*	=	33.33%
FMV of personal use is	*$4,850.00* ***X*** *.3333*	=	$1,616.51
State-provided fuel is	*5,000 personal miles* ***X*** *$.055*	=	$ 275.00
Total FMV of employee's personal use of the vehicle			
	$1616.51 + $275.00	=	$**1,891.51**

2 Policy

2.1 The IRS stipulates that employees select **only one** valuation method per year.

2.2 "Control Employees" may use the Cents-Per-Mile method if specific requirements are met. Otherwise, they must account for the personal use of a State-provided vehicle under the *Annual Lease Valuation Method*.

2.3 The State of Delaware uses the Special Accounting Period Rule
- November 1 - October 31 is the taxable year for commuting use of State-provided vehicles
- Commuting use in November/December is reportable as taxable income in the next tax year

2.4 Imputed income associated with the commuting use of State provided vehicles must be reported in accordance with State policy for the purpose of capturing taxable wage and withholding information for the accurate calculation of employee and employer taxes

2.5 Organizations are responsible for maintaining current and accurate records of employees who are provided a State vehicle.

2.6 For any part of a vehicle's usage to be considered non-taxable, Organizations should only provide vehicles to those employees whose job duties <u>require</u> the use of a vehicle.

2.7 If the vehicle is used for both business and personal travel, the employee must account for the business use to the Organization.

2.8 Substantiation of business use of a State-provided vehicle
- Employee should record mileage, time, place, and the business reason of travel
- Written records of business usage is the strongest evidence in an IRS audit
- If business and commuting use of the vehicle are the same for each period in a year (month, work week, etc.), adequate records for a single period can be used to project the usage for the balance of the year
- When the vehicle is used for business-related purposes, the value of the use is excluded from income as a working condition fringe benefit

2.9 Organizations must collect and enter **personal use** of a State-provided vehicle into the PHRST system to report this taxable "non-cash fringe benefit."

2.10 Commuting is the only authorized "personal use" of State vehicles, pursuant to the State Policies, Procedures, and Standards, issued by the Office of Fleet Management. Also, Section 7106, Title 29, Del. Code prohibits the personal use, other than commuting use, of State vehicles and provides fines for any violations. All passengers commuting in a State vehicle are subject to all the same taxable income rules (excluding vanpools).

2.11 The following types of State vehicles are exempt from the taxability of commuting use:
- Clearly marked police and fire vehicles
- Fire Marshall and Public Saftey vehicles
- Unmarked law enforcement vehicles when used for authorized purposes and operated by a full-time law enforcement officer
- Delivery trucks with driver seat only, or seating for the driver plus a folding jump seat
- Flatbed trucks, Bucket trucks, Garbage trucks, Tractors
- Cargo carrier with over a 14,000-pound capacity
- School and passenger buses with over a 20-person capacity
- Ambulances, Hearses
- Cranes, Derricks, Forklifts, Cement mixers, Dump trucks
- Specialized utility repair trucks (except vans and pick-up trucks)
- Vehicles in a pooling program, approved by the Governor, where the entire cost of the vehicle is reimbursed by the employees

2.12 To comply with IRS reporting requirements, all employees assigned a State vehicle must maintain a detailed record of business use of the vehicle and the total mileage used in the reporting period and submit the information to their Organization. The balance of the mileage accrued in the reporting period is designated as "commuting use" mileage and must be reported.

2.13 Failure to maintain mileage usage requires Organizations to automatically use the FMV of a one-year lease of the vehicle. The Office of Fleet Management provides the FMV for State vehicles. Employees may use the cents-per-mile method to value the one-year lease if, and only if, the vehicle could have been leased on a day-to-day lease.

2.14 The commuting use of an employer provided vehicle for more than one day a month is not excludable from gross income as a de minimis fringe benefit. Valuation methods are as follows:

(A) If the vehicle is *used at least 30 days* but less than the entire calendar year – use the prorated Annual Lease Value (ALV) method.

FORMULA: $\text{Prorated ALV} = \text{ALV} \times \dfrac{\text{Days of Availability}}{365}$

(B) If the vehicle is *used less than 30 days* – use the Daily Lease Value method:

FORMULA: $\text{Daily ALV} = \text{ALV} \times 4(\text{4 year lease}) \times \dfrac{\text{Days of Availability}}{365}$

2.15 PCG periodically cross-references Vehicle Usage reported in the PHRST system with records from the Office of Fleet Management to ensure all employees assigned a vehicle, have reported the personal use of those vehicles to their Organization's Payroll department. PCG monitors an exception report to ensure compliance, and contacts Organizations when Vehicle Usage has not been reported for an employee who has a permanently-assigned State vehicle. To facilitate that cross-reference process, Vehicle Usage should be recorded in the PHRST system on a quarterly basis, at a minimum. More frequent reporting (i.e., monthly or bi-weekly) will minimize the number of employees reported on the exception report through the year.

2.16 The result of entering vehicle usage is a calculated imputed income figure which is added to the employee's taxable wages for the purpose of calculating Federal, State, and, if applicable, City of Wilmington wage taxes, Social Security and Medicare taxes. This imputed income figure is also used to calculate the employer's Other Employment Costs (OEC's) for Social Security and Medicare. (The OEC's are prorated only among the appropriations from which the "Regular Earnings" are expended and only those earnings that are subject to Social Security, Medicare, and/or Pension.)

ADDITIONAL CONSIDERATIONS:

SUPPORTING DOCUMENTS:

PRU-VEH-01 – Imputed Income Related to State Vehicle Usage (PHRST Website)
Current – Vehicle Commuting Computation Form (PHRST Website)
Current – Vehicle Signature Statement and Computation Form (PHRST Website)
IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits (IRS Website)
Acceptable Vehicle Use Policy & Exemptions (Office of Fleet Management)
Calendar Year Start Up/ End Memorandums (PHRST Website)
US Office of Personnel Management-Salary and Wages (Salaries & Wages (opm.gov))