



October 21, 2011

To: Clients of Stephen M. Kirouac, CPA, PC

RE: Attached "Automobile Usage Documents"

Dear Clients:

Enclosed are the following documents, which have been designed to help you accumulate information from your employees concerning their personal use of company-provided automobiles. The documents include the following:

- 1) General explanation of the Internal Revenue Service (IRS) rules regarding the personal use of company-provided automobiles to employees (record keeping, etc.).
- 2) Letter explaining how to begin using the "Two-Month Income Deferral Method" to calculate the value of the personal use of company-provided automobiles.
- 3) "Employee User Report" and "Instructions for Filling Out Employee User Report Under the Two-Month Deferral Period".
- 4) "Employer Report Of Vehicle Use" to be prepared by the employer to determine the taxable value of the employer-provided vehicle to be included on the employees W-2 form. "IRS Lease Table Method, Taxable Benefit of Company Auto Worksheet" prepared by the employer.

Please take some time to review these documents and have your employees supply the above information so you can properly calculate their taxable benefit. **Be sure to provide the taxable benefit to your payroll service for your fourth quarter payroll tax returns.**

If your company does not provide automobiles to your employees, including owner employees, this memorandum will not apply to you.

Please call our office if you have any questions. Our telephone number is (586) 752-7700.

Sincerely,

STEPHEN M. KIROUAC, CPA, P.C.

Stephen M. Kirouac, C.P.A.

Stephen M. Kirouac, CPA

Enclosures

PERSONAL USE - COMPANY CARS

The current tax law requires employers to include as taxable wages on employees' W-2s the value of the personal use of company cars and trucks. Thus, you and your employees driving company cars and trucks will have to account to the IRS for such usage. In order to be able to exclude business usage from personal taxation, it is essential that each employee keep good records of company car or truck use. Employees who cannot substantiate the business use of a company car or truck will be taxed on the total annual value.

Adequate Records

While maintenance of a contemporaneous log is not required, a record of the elements of expenditure or of a business use made at or near the time of the expenditure or use would constitute the best evidence to satisfy the substantiation requirements. Adequate records may consist of account books, diaries, logs, expense statements, trip sheets, or similar records prepared at or near the time of an expenditure or use, and documentary evidence which, in combination, establishes each element of an expenditure. The level of detail required in an adequate record to establish the element of the business use of property may vary depending on the facts and circumstances. Taxpayers who fail to maintain records must establish the elements of expenditure or use by written or oral statements and other sufficient corroborative evidence. In certain cases, concurrent or repetitious expenditures or uses may be substantiated as a single item.

To determine the value of personal use to be taxed as compensation, the following methods are available:

1. The IRS Lease Table Method

This method is to be used for automobiles only. Under this method the fair market value of the vehicle at January 1, 1986 or its cost determines the annual lease value of the vehicle if acquired after January 1, 1986. This value is used for four years. For the fifth or subsequent years a new fair market value is determined each year.

The total miles driven are multiplied by five and one half cents (\$.055).

The sum of these factors is then allocated between business and personal use based on business and personal mileage.

Example:	Car with a fair market value of \$10,000	
	Total miles driven are 12,000	
	Business use 80%	
	Lease value from IRS table	\$ 3,100
	12,000 miles x .055	<u>+ 660</u>
		3,760
	80% business	<u>- 3,008</u>
	Taxable benefit	<u>\$ 752</u>

You must report the \$752 taxable benefit on the employee's W-2 for the year as wages in box numbers 1, 3, 5 and 14. The amount must also be included as wages on the 941 and, it is subject to social security tax, UIA tax and FUTA tax to the extent the limits have not been exceeded. The amount can be reported on a second W-2.

2. Special Rule - Commuting

The regulations contain a special rule, applicable to commuting use of employer-provided vehicles of all types occurring after 1984, to be used in valuing the commuting use of an employer-provided vehicle.

PERSONAL USE - COMPANY CARS
(CONTINUED)

Employers and employees must meet the following criteria.

- 1) The vehicle must be owned or leased by the employer and provided to one or more employees for use in connection with the employer's trade or business.
- 2) For bona fide noncompensatory reasons, the employer requires the employee to commute to and/or from work in the vehicle.
- 3) The employer has established a written policy under which neither the employee nor any individual whose use would be taxable to the employee may use the vehicle for personal purposes other than de-minimis personal use.
- 4) Except for the de minimis use, neither the employee nor any individual whose use would be taxable to the employee may use the vehicle for any personal purpose other than commuting.
- 5) The employee required to use the vehicle for commuting must not be a control employee of the employer. A control employee is a director, officer or 1 percent owner of the employer. The value of commuting will be \$1.50 per trip and included as compensation on the employee's W-2.

3. Standard Mileage Allowance

This rule will permit the use of the standard mileage allowance to value the personal use of an employer-provided vehicle regularly used in the employer's business. Passenger automobiles must have a fair market value of \$15,300 (\$16,000 for trucks and vans) or less, be regularly used in the employee's business and be driven at least 10,000 miles in the calendar year. This method may be used for any vehicle type. The standard mileage allowance rate for January 1 – June 30, 2011 is 51 cents per mile and 55.5 cents per mile for July 1 – December 31, 2011. Thus, the personal mileage times the standard mileage rate would be included as compensation on the employees W-2.

4. No Personal Use Policy

Employers - A policy statement that prohibits personal use by an employee satisfies an employer's substantiation requirements under the law if all the following conditions are met and evidence exists that would enable the IRS to determine whether the use of the vehicle meets the conditions. (See sample attached.)

- (1) The vehicle owned or leased by the employer is provided to one or more employees for use in connection with the employer's trade or business.
- (2) When the vehicle is not being used for such business purposes, it is kept on the employer's business premises (or temporarily located elsewhere, e.g., for repair).
- (3) No employee using the vehicle lives at the employer's business premises.
- (4) Under the employer's written policy, no employee (or any individual whose use of the vehicle would result in gross income to the employee) may use the vehicle for personal purposes, other than de minimis personal use (such as a stop for lunch between two business deliveries).
- (5) The employer reasonably believes that, except for de minimis use, no employee uses the vehicle for any personal purpose.

STEPHEN M. KIROUAC, CPA, PC
(586) 752-7700

AUTOMOBILE USAGE
TWO-MONTH INCOME DEFERRAL METHOD

The current tax law requires employers to include as taxable wages on employee W-2s the value of the personal use of company cars and trucks. Thus, you and your employees who drive company cars and trucks will have to account to the IRS for such usage.

Under special rules, the employer may elect to treat the last two months of automobile usage income as paid in the following year. As a result, the employer will not report the employee's automobile usage income for the months of November and December, until the following year. In the first year that this method is elected, the employee's W-2 will include automobile usage income for the period covering January through October. In the following years, the employee's W-2 will include automobile usage income for the period covering November through October.

No formal notification to the IRS of the election of this two-month deferral is necessary and the election may be changed at any time. If the employer decides to report automobile usage income on the calendar year basis (January through December) after having elected the two-month deferral period, (November through October), for the prior years, it must include the two months of deferred income (November and December) with the current year's income, (January through December) on the employee's W-2.

Additionally, if the employer elects to use the two-month deferral period, it must apply the method to all employees who receive automobile usage income. Also, the two-month deferral applies only to benefits actually provided to the employee. If the employer provided the automobile usage benefit in July, but elected to treat it as provided in December, that benefit cannot be deferred because it was not actually provided in the last two months (November and December deferral period) of the year.

The employee must treat the automobile usage income as received in the period elected by the employer. However, if the employer elects the two-month deferral period, notice of the election must be provided to the employee at or near the time the employer furnishes the W-2 to the employee. This notice cannot be given earlier than the last paycheck of the calendar year.

Our firm strongly recommends that employers elect this two-month deferral period for its employee automobile usage income to promote administrative efficiency in the processing of year-end payroll disclosures. Employee reports of vehicle use should contain information relating to the automobile usage for the year through October 31. If our firm prepares your company's W-2s, the employee vehicle use worksheets should be received in our office as soon as possible after October 31. If your company's W-2s are prepared by an outside payroll service, please check with that service as to when this information needs to be provided and include only the information for the year through October 31.

Stephen M. Kirouac, CPA

EMPLOYEE USER REPORT

DOCUMENTATION OF TAXABLE VALUE OF FRINGE BENEFIT
OF COMPANY AUTOMOBILE

For the period _____ through _____

Employee Name _____

Description of auto _____

Line 1 Odometer at beginning of period _____

Line 2 Odometer at end of period _____

Line 3 Total miles for period (line 2 minus line 1) _____

Line 4 Business miles _____

Line 5 Personal miles – commuting _____

Line 6 Personal miles - non-commuting _____

I hereby certify that the above allocation is accurate and that my records, in conformity with IRS record keeping requirements, document the business usage. I agree to keep these records available for inspection for five years. I understand that the taxable value of the personal usage will be added to my W-2 form in accordance with IRS regulations.

Employee Signature

Date

INSTRUCTIONS FOR FILLING OUT EMPLOYEE USER REPORT
UNDER TWO-MONTH DEFERRAL PERIOD

1. Fill out report for each automobile used by each employee during the year.

For example, if you were assigned a new automobile 3/2/11, you would fill out two reports:
One, 11/1/10 through 3/1/11, and the other 3/2/11 through 10/31/11.

2. Line 3 equals line 2 minus line 1.
3. Sum of lines 4, 5 and 6 should equal line 3.

Example of the computation of the taxable value:

Assume you drive a car costing \$13,000; drive 12,000 miles during the year of which you can document 80% business.

Lease value (from IRS table)	\$ 3,850
12,000 Miles x .055	+ <u>660</u>
Total	4,510
80% Business	- <u>3,608</u>
Taxable value	\$ <u>902</u>

If you were in a 25% tax bracket, your out-of-pocket cost would be \$226.

EMPLOYER REPORT OF VEHICLE USE
(To be prepared by employee)

Employee _____

Social Security No. _____

Vehicle Information

Make _____ Model _____ Year _____

Two-door _____ Four-door _____

Period(s) of use _____

Information Required for Tax Purposes

1. Total miles driven _____
2. Total business miles _____
3. Total commuting miles _____
4. Total other personal miles _____
5. Total personal miles (3 + 4) _____
6. Average daily round-trip commuting distance _____
7. Number of one-way commutes during period _____
8. Was vehicle available during off-duty hours? (Y/N) _____
9. Was another vehicle available for personal use? (Y/N) _____
10. Do adequate records or sufficient evidence exist to justify business miles? (Y/N) _____
11. Is the evidence written? (Y/N) _____

IRS LEASE TABLE METHOD
TAXABLE BENEFIT OF COMPANY AUTO
WORKSHEET

I. Automobile Lease Value Rule

Fair value of auto at purchase _____

A. Business percentage (business miles driven ÷ total miles driven) _____

B. Lease value (from IRS table) _____

C. Total miles x .055 _____

D. Subtotal B + C _____

E. Business usage A x D _____

F. **Taxable benefit D – E (Form W-2, Boxes 1, 3, 5 & 14)** _____

II. Vehicle Cents Per Mile Valuation Rule

G. Personal miles x .51 (January 1 – June 30)
Plus
Personal miles x .555 (July 1 – December 31)
(only available if fair market value is less than
\$15,300 for passenger automobiles or \$16,000
for trucks/vans and total business miles exceed 10,000) _____

III. Vehicle Commuting Valuation Rule

H. One-way commuting trips x \$1.50 _____

IV. Taxable Benefit to W-2

I. Shareholders, directors or officers - Item F only _____

J. Employees - Commuting valuation, cents per
mile or lease value; whichever is applicable _____

Signature

Date

NOTE

An employee/user report must be filled out for each vehicle made available to the employee/user during the period.

REMINDER

If the W-2 forms are prepared by Stephen M. Kirouac, CPA, P.C., please complete this worksheet for each company auto and return the worksheet to us as soon as possible after December 31, or October 31 if the two-month deferral period is elected. If your W-2 forms are prepared by an outside payroll service, please check with that service as to when this information needs to be provided.

Annual Lease Value Table

<i>Automobile fair market value</i>	<i>Annual Lease Value</i>
\$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 vehicles having a fair market value in excess of \$59,999, the annual lease value is equal to: (.25 x the fair market value of the car) + \$500.

Example

Barbara Smith's employer provided a car for her personal use during 2011. The car's fair market value on January 1, 2011, was \$10,500. The annual lease value for the \$10,000 to \$10,999 range, taken from the IRS table, is \$3,100. Under this method, her employer is required to include \$3,100 in Smith's gross income for 2011 for her personal use of the car.