BENEFITS INSIGHTS

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Personal Use of Employer-provided Vehicles

One of the common employee fringe benefits is use of a company-owned or leased vehicle. Generally, fringe benefits are taxable unless specifically excluded by law. As such, taxable fringe benefits are subject to employment taxes and are includible in the employee's Form W-2, Wage and Tax Statement. There are special rules to withhold, deposit and report the employment taxes on these benefits.

If an employer provides a vehicle for an employee's use, the amount excludable as a working condition fringe is the amount that would be allowable as a deductible business expense if the employee paid for its use. Employees must substantiate their business use with adequate documentation in order to qualify it as an excludable working condition fringe.

The general way to determine the value of a fringe benefit is to determine the fair market value of that benefit. The fair market value is the price an employee would incur to buy or lease the benefit in an arm's length transaction. There are special valuation rules an employer can use to determine the value of an employer-provided vehicle:

- **The Vehicle Cents-per-mile Rule**—The employer multiplies the miles the employee drove for personal use by the standard rate, which is 57.5 cents per mile for 2015.
- **The Commuting Valuation Rule**—The employer multiplies the number of times the employee used the vehicle for commuting times $1.50 if the employer meets all the requirements for using this method.
- **The Automobile Lease Value Rule**—The employer uses the annual lease value to determine the value of the employee's personal use of the vehicle.

There are specific requirements that must be met to use these special valuation rules. For example, the employer must provide the employee with a vehicle for commuting for bona fide non compensatory business reasons to use the commuting valuation rule. More information on the taxation of automobiles, the automobile valuation rules and the treatment of fringe benefits in general can be found in Publication 15-B, Employer's Tax Guide to Fringe Benefits.

Source: IRS.gov

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