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Vehicle Non-Cash Fringe Benefits Reporting Requirements

In this letter, with enclosures, we will explain the various rules regarding fringe benefits and your reporting requirements and options as employers. The main focus of this letter will be on employer-provided highway motor vehicles. Please use this letter as a working tool in your business noting any questions you may have for us. In this way, we can further assist you in complying with the rules and regulations in this complex area.

Compliance with the tax laws for fringe benefits is very important. The government can assess harsh penalties and interest for any deficiencies that may arise due to non-compliance.

REPORTING REQUIREMENTS

In general, the law requires certain reporting when you provide an employee with a vehicle, including a requirement that a dollar figure derived by various means (see section entitled *Instructions for Calculating Employee Fringe Benefits* below) be reported to the employee as a taxable fringe benefit. The amount includable in the employees' income is the excess of the fair market value of the benefit over the sum of any amount excludable by law.

1. Highway Motor Vehicle:

Employers providing a highway motor vehicle may determine the actual value of the benefit or consider the entire usage to be personal and include 100% of this value in the employee's income. If the employer decides to include 100% of this value in the employee's income, then the employee may then claim any deductible business expense for the car on his or her personal income tax return. Highway motor vehicles subject to the fringe benefit calculation include automobiles, trucks, and vans with a loaded gross weight of 14,000 pounds or less.

The following are exceptions to qualifying vehicles:

a. Pick-up trucks with a loaded gross vehicle weight of 14,000 pounds or less if the vehicle is clearly marked with permanently affixed decals or advertising associated with the employer's trade, business, or function and is either (1) equipped with heavy equipment or (2) used primarily to transport a particular type of load.

b. Vans with a loaded gross vehicle weight of 14,000 pounds or less if the vehicle is clearly marked with permanently affixed decals or advertising associated with the employer's trade, business, or function. In addition, it must have a seat only for the driver (or the driver and one other person) and either contains (1) permanent shelving filling most of the cargo area or (2) an open cargo area and the van always carries material and equipment used in the employer's trade, business, or function.

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2. Notification Requirements:

The employer is required to provide notification to the employee. If an employer provides an employee with a vehicle, the employee must annually receive notification from the employer of:

a. the particular valuation rule the employer intends to use for that year (the method used determines what documentation is needed to substantiate the declared usage);

b. the substantiation requirements for which the employees are responsible, (it is the employee's responsibility to submit substantiation) and;

c. the effect on the employee of a failure to comply with the substantiation requirements.

(See *Enclosure 1* for a sample notification employee memorandum.)

3. Withholding Requirements:

The employer may add the value of fringe benefits to regular wages for a payroll period and calculate withholding taxes on the total or may withhold federal income tax on the value of the fringe benefits at the 22 percent rate presently applicable to supplemental wages. An employer may elect *not* to withhold income tax on the value of an employee's personal use of an employer-provided motor vehicle. The employer must, however, withhold applicable Social Security (FICA) and Medicare taxes on that benefit (see *Enclosure 2* for a sample of this election statement).

The election is made by notifying the affected employees in a manner that can be reasonably expected to come to the attention of all such employees, such as including the notice with the employees' paychecks or by posting the notice on an employee bulletin board. The notice must be provided by January 31st of the year to which the election is to apply, or within 30 days after the date the employer first provides a vehicle to the employee.

4. Deposit Requirements:

The employer can elect when the fringe benefit is to be reported to the employee for payroll tax withholding (including FICA and Medicare) purposes. The law allows the employer to elect to treat these fringe benefits as deemed-paid during a pay period on a quarterly, semi-annual, annual, or other basis, but they must be treated as paid no less frequently than annually. This election can be changed from year to year and no formal notice of election of payment dates is required to be made with the IRS. You must treat all benefits provided in a calendar year as paid by December 31st of the calendar year. The employer may elect an October 31st cut-off date to report fringe benefits to the employee ("special accounting rule" - it is optional, no formal notice is required to be made with the IRS, and the employer may use it for some fringe benefits and not for others). We have generally found it most convenient for employers to treat the deemed payment on an annual basis (with the October 31st cut-off date option), usually in the last pay period of the calendar year. Once payment dates for fringe benefits are elected, payroll taxes are required to be deposited under the general deposit rules, including those for timeliness of deposit. Depositing less than the required deposit amount may subject the employer to the "failure to deposit penalty."

INSTRUCTIONS FOR CALCULATING EMPLOYEE FRINGE BENEFITS

There are three methods available to calculate employee fringe benefits for employer–provided highway motor vehicle use. The three methods available are as follows:

1. **The Commuting Value Method** may be used if the employee uses the vehicle only for commute purposes, with no other personal use, and the employer has a written policy stating that no personal use is allowed. To qualify for this method, the employee may not be a "control employee." The calculation under this method is $3.00 per round trip commute, or $1.50 per one-way commute. A "control employee" of a non-government employer for 2025 is generally any of the following employees: a bord or shareholder appointed, confirmed, or elected officer whose pay is $140,000 or more; a director; any employee whose pay is $285,000 or more; or an employee who owns 1% or more equity, capital, or profits interest in your business. Alternatively the highly compensated employee may be used to define a controlled employee. This includes a 5% owner during the current or previous year, or an employee whose pay exceeds $155,000 for the previous year.

2. **The Vehicle Cents-Per-Mile Method** may be used if the employee uses the vehicle for personal use as well as commuting. The fair market value of the vehicle must be less than $61,200. The vehicle must be driven at least 10,000 miles in the year. The employee may not be a "control employee" as described above. Furthermore, the vehicle's total annual mileage must be at least 50% for employer-related business use (non-personal use). The calculation under this method is the total personal and commuting mileage in the year multiplied by 70 cents for January 1, 2025 to December 31, 2025. If the employee pays for fuel, the rates can be reduced by 5.5 cents per mile.

3. **The Automobile Lease Value Table Method** is required to be used if the employee is a "control employee" as described above. The calculation under this method is as follows:

    a. Obtain the fair market value of the vehicle as of the first date on which the automobile is made available to the employee for personal use (see *Enclosure 3* for the Annual Lease Table). If the employer leases the auto, use the manufacturer's suggested retail price less 8%. You may also use the manufacturer's invoice price (including options) plus 4%. *Kelley Blue Book* is a reliable reference for establishing the vehicle's fair market value and is available at auto dealerships, local libraries and on the internet at www.kbb.com.

       Note: The lease value used in the first year the vehicle is placed in service must be used for at least four full calendar years following the year the vehicle was placed in service, unless the vehicle is given to a different employee for use in the employer's business. When the use of a vehicle is changed among employees, the fair market value may be re-determined.

    b. Locate the fair market value on the annual lease table to obtain the annual lease value (see *Enclosure 3* for the Annual Lease Table).

    c. Multiply the value located in (b) above by the percentage of personal use the employee's commute miles plus other personal miles divided by the total miles driven during the year. *Be sure to document the beginning and ending odometer reading of each vehicle annually as this is important in meeting IRS documentation standards.*

d. Prorate the figure calculated in Step (c) above for the number of months the vehicle was actually used during the year (actual months used divided by 12 months multiplied by the figure calculated in Step (c) above).

e. If the employer furnished fuel, add 5.5 cents per mile multiplied by the number of personal and commute miles to the value calculated in Step (d) above.

Note: Once the lease value table method or the cents-per-mile method is chosen, you may not change from either of these two methods unless the vehicle changes from one employee's use to another. The commuter method is always an alternative (if the proper criteria are met) to the cents-per-mile or lease value methods.

If the employee has reimbursed the company for any auto expenses, the amount should be subtracted from the employee's fringe benefit calculations.

We have included *Enclosure 4* as a sample to assist in choosing one of the above methods. We have also included *Enclosure 5* as a documentation worksheet.

We appreciate the opportunity to serve your business needs. If you have any questions or would like further clarification or assistance, please call us.

Enclosures

Enclosure 1

MEMORANDUM

TO: ALL EMPLOYEES PROVIDED WITH COMPANY CARS

FROM: CORPORATE FLEET MANAGER

RE: 2025 INCOME TAXES

The following is a general discussion of the personal income tax considerations relative to your company car. Since this discussion is general, consultation with your personal tax advisor is recommended.

The company car related provisions of the 1984 Tax Reform Act were enacted, among other things, to tax personal use of company cars and require taxpayers to keep better records of their car expenses.

COMPANY POLICY

1. The company has adopted an October 31 cut-off date to report the following income on your 2024 Form W-2:

   a. The "Annual Lease Value" of your car, as provided by IRS regulations, prorated as necessary.

   b. The value of company-paid gasoline which will be calculated by multiplying .055 by your total personal and commute miles driven from November 1, 2024 to October 31, 2025.

   The Corporate Fleet Department is preparing individualized statements for each employee showing the amount of the annual lease value we intend to add to your W-2. They will be mailed to you in conjunction with a Company Car Mileage Statement. You must sign and indicate the total miles you drove your company car(s) from November 1, 2024 to October 31, 2025.

2. Federal and state income taxes will not be withheld on the value of your car or company-paid gasoline.

3. Social Security (FICA) and Medicare tax will be withheld on a one-time lump sum basis for 2025. This will affect employees whose 2025 wages from the company are less than $176,100 at a rate of 7.65%. For employees with wages from the company greater than $176,100 a rate of 7.65% will apply on wages up to $176,100 and a rate of 1.45% will apply to wages from the company over $176,100. An additional 0.9% Medicare tax will be withheld on wages in excess of $200,000 in the calendar year.

4. State Disability Insurance (SDI) will be withheld on a one time lump sum basis for 2025. This will affect employees 2025 wages from the Company at a rate of 1.10%.

<u>SUGGESTIONS TO SUBSTANTIATE BUSINESS USE AND TO BUDGET FOR INCREASED TAXES</u>

a. Keep your own records. The use of a log, showing the date, amount and business purpose of each use and cost of maintaining your company car(s) is acceptable to the IRS. To determine your 2024 business use deduction, calculate your total miles and your business use miles for the period beginning November 1, 2024 and ending October 31, 2025.

b. <u>File Form 2106</u> with your federal income tax return. You may be able to deduct any unreimbursed business use portion of these amounts on your individual tax return. For federal income tax purposes, your business use deductions should be filed on Form 2106.

2. Budgeting is suggested for potential increased Social Security (FICA) and Medicare withholding and federal and state income taxes.

   a. The lump sum withholding of Social Security (FICA) and Medicare taxes at 7.65%, if applicable, reduces your take-home pay for 2025. An additional 0.9% Medicare tax will be withheld on wages in excess of $200,000 in a calendar year.

   b. Since no federal or state income tax will be withheld on company car income, there may be (1) a larger balance due or (2) a smaller refund when you file your 2025 personal income tax returns. In addition, you could be subject to penalties for underpayment of estimated income taxes (see Form 2210) if you do not increase your income tax withholdings or make estimated tax payments. To decrease the amount of taxes owed or avoid underpayment penalties, you can increase your income tax withholdings by re-filing a federal Form W-4 and state form DE-4 with the Payroll Department.

Enclosure 2

To:

Date:

From:

Subject: Employer Election Not to Withhold Income Taxes on the Value of Personal Use of Company Vehicles

____has elected not to withhold any federal or state income
(Employer)
tax on the value of your personal use of any company owned or leased vehicle, which is a taxable fringe benefit to its employees. However, this taxable fringe benefit amount will be included in your W-2 for this taxable year, and will be subject to Social Security (FICA) tax and State Disability Insurance (SDI) tax.

As this fringe benefit amount is taxable to you, you may wish to either file an amended W-4 and CA form DE-4 to increase the amount withheld from wages or increase your estimated tax payments in order to avoid any potential penalties due for underpayment of taxes.

Annual Lease Value Table

Automobile fair market value	*Annual Lease Value*
$ 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: (0.25 x the fair market value of the automobile) + $500

Non Cash Fringe (NCF) Calculation Methods

						Commute Value Method	Vehicle Cents per Mile Method			Auto Lease Value Table Method			
Employee Auto Number	Fair Market Value	T = Total Miles (Ending - Beginning)	C = Commute Miles	P= Personal Miles	(C+P)/T = % of Personal Use	$3/Day Commute Only < 1% Shareholder = Total Commute Value Method	V = $.67/mile Nov. - Dec. 2024, $.70/mile Jan. - Oct. 2025 times (C+P miles)	F = Fuel .055 times C+P (only if applicable)	V-F=Total Vehicle Cents Per Mile Method	L = Lease ValueTable times % of Personal Use	F = Fuel .055 times C+P (only if applicable)	L-F=Total Lease Value Table Method	FICA & SDI Calculation

Fringe Benefit Vehicle Information Sheet
2025 Year

This information will be used to determine the valuation for the personal use of the employer owned automobile. Please complete a separate sheet for each employee for the 12 month period ended December 31, 2025 or alternatively November 1, 2024 thru October 31, 2025; must be applied consistently.

Cut-off period elected as October 31, 2025 unless December 31, 2025 is noted

Employee Name			
Social Security No.			
		Auto 1	Auto 2
Vehicle Make			
Vehicle Model			
Vehicle Year			
Months during the year auto available to employee			
Original vehicle cost, if less than 4 years old		$	$
Fair market value of vehicle, if more than 4 years old		$	$
If leased, provide actual monthly lease cost		$	$
Total business miles			
Total miles driven			
Total personal miles			
Total miles driven for commute			
Percentage of company owned by employee			
		Yes/No	Yes/No
Is the vehicle electric?			
Is employee an officer of the corporation or a "control employee"?			
Did employer pay for insurance?			
Did employer pay for maintenance?			
Did employer pay for fuel?			
Is there a written policy which limits this employee to use the employer provided vehicle for commute only?			
Did the employee pay the company back for use of and/or fuel for the vehicle?			
Odometer reading - beginning of year			
Odometer reading - end of year			