
 TAXATION ON CITY VEHICLES USED BY CITY EMPLOYEES	ADMINISTRATIVE POLICY MANUAL Section 1.1 – Miscellaneous
	Approval:  City Administrator
Effective Date: March 17, 2015	Responsible Department: Finance Dept.

PURPOSE OF THE POLICY:

The purpose of this policy is to implement regulations and create administrative procedures for the Finance Department as set forth by the Internal Revenue Service (IRS) regarding the tax reporting required for government-owned vehicles provided to employees. According to the IRS, personal use of a government-owned vehicle is generally a taxable fringe benefit and is considered to be a form of pay. Accordingly, the fair market value of such benefit must be included in the employee's wages unless specifically excluded pursuant to IRS regulations.

LIMITATIONS OF THE POLICY:

This policy shall apply to City employees that have been duly authorized and approved by the City Administrator or designee to use a City-owned vehicle for official City business. This policy does not establish the rules and procedures that govern the assignment, use and reporting requirements of City vehicles including take-home vehicles. Please refer to Administrative Policy Section 1.2 – City Vehicle Authorization and Use for such rules and procedures.

This policy is subject to change based on any changes made by the IRS. The City will adhere to current applicable IRS rules and regulations regarding government-owned vehicles provided to employees.

DEFINITIONS:

Take-home vehicle — Any vehicle that is owned, leased, rented or otherwise under the care, custody or control of the City and is taken from the City premises after normal working hours to remain in "home storage" overnight for use of a City employee or authorized representative for a bona fide City purpose.

Bona-fide City purpose — A bona fide City purpose is conducting official City business only. Bona fide City purpose does not include personal use or assignment of a take home vehicle as a benefit or as compensation.

Personal use — Includes the value of commuting to and from work in a government-owned vehicle, even if the vehicle is taken home for the convenience of the employer. The personal use of a City-owned vehicle is a taxable fringe benefit and the value of such fringe benefit must be included in wages and is subject to income, social security, and Medicare tax withholding. Personal use may be excluded as a de minimis benefit (infrequent and of little value).

Employee — An employee is an elected official, or an employee as defined by the IRS requirements.

Fringe benefit — According to the IRS, a fringe benefit is a form of pay for the performance of services. For example, the City provides an employee with a fringe benefit when the employee is allowed to use a City vehicle to commute to and from work. Any fringe benefit that is provided by the City is taxable and must be included in the employee's pay unless the law specifically excludes it.

Qualified non-personal use vehicles (Exempt vehicles) — According to IRS regulations and guidelines and for the purposes of tax calculation only, certain vehicles and equipment, particularly emergency and utility service vehicles, designated by IRS regulations are exempt for the purpose of increased tax liability. A qualified non-personal use vehicle is any vehicle the employee is not likely to use more than minimally for personal purposes because of its design. This exemption means that the taxable income of the employee assigned one of the following vehicles will not be affected. According to IRS Publication 15-B, qualified non-personal use vehicles generally include the following vehicles:

- Clearly marked, through painted insignia or words, police, fire, and public safety vehicles. The employee must be on-call, required to commute in the vehicle, and be prohibited from personal travel outside the jurisdiction.
- Unmarked vehicles used by law enforcement officers if the use is officially authorized. The officer must be authorized to carry a firearm, execute search warrants and make arrests.
- An ambulance or hearse used for its specific purpose.
- Any vehicle designed to carry cargo with a loaded gross vehicle weight over 14,000 pounds.
- Delivery trucks with seating for the driver only, or driver plus a folding jump seat.
- A passenger bus with a capacity of at least 20 passengers used for its specific purpose.
- School buses.
- Tractors and other special purpose farm vehicles.
- Bucket trucks, cement mixers, combines, cranes and derricks, dump trucks, flatbed trucks, forklifts, qualified moving vans, qualified specialized utility repair trucks, and refrigerated trucks.
- Pickup trucks with a loaded gross vehicle weight of 14,000 pounds or less is a qualified non-personal use vehicle if it has been specifically modified so it is not likely to be used more than minimally for personal purposes.

All other Employer-Provided Vehicles (Non-exempt Vehicles) — According to IRS guidelines and for purposes of tax liability calculation only, all other City-owned vehicles that are not listed above and do not meet the criteria to be exempt vehicles are classified as "non-exempt." For employees who have been provided with a vehicle that does not meet the "qualified non-personal use (exempt vehicle)" criteria, the personal use of the vehicle is a taxable fringe benefit. This means that a tax liability will be incurred by the employee to whom the use of the vehicle is assigned.

Example: A City owned pickup truck has the name of the City marked on the vehicle. Usually the employee is allowed to take the vehicle home because he/she is "on call." The vehicle is not a qualified non-personal use vehicle, thus the commuting value is a non-cash taxable fringe benefit.

Example: An employee takes a City vehicle home in order to avoid exposing it to harm. The vehicle has a City seal on the door and is not to be used for personal use. If this is an infrequent occurrence (less than once a month) this may be excludable as a de minimis fringe benefit. If this is a frequent or regular occurrence, the commuting may be valued using the commuting rule (see below) because there is a non-compensatory business purpose for the employee taking the vehicle home. If the vehicle is not a qualified non-personal use vehicle as discussed above, and the employee drives it home, there is a taxable commuting benefit.

Fringe benefit valuation rules for take-home vehicles — In the absence of a vehicle's qualification as a non-personal use vehicle, there are three methods that can be used in compliance with IRS regulations, to value the personal use (including commuting) of the employer-owned vehicle provided to the employee for income and FICA tax purposes: 1) Cents-Per-Mile rule, 2) Commuting Rule and 3) Lease Value Rule. The following valuation methods are in summary format, the City will adhere to the valuation rules as described in the IRS publications. The valuation rules for take-home vehicles are summarized below:

1) Cents-Per-Mile Rule:

Under the cents-per-mile rule, the value of the use of a vehicle is the standard mileage rate (57.5 cents per mile in 2015) multiplied by the number of personal miles driven. However, this rule is not available for a car if its fair market value in the first year of use by the employee in 2014 exceeds \$16,000 and for a truck or van if its value exceeds \$17,300. It also must be driven at least 10,000 miles during the year. If either the mileage requirement or the value limitation is not satisfied, the annual lease value described below would need to be used.

2) Commuting Value Rule:

If the City provides a vehicle to an employee and prohibits personal use of it except for commuting to and from work, the employee is taxed on the commuting use at a rate of \$1.50 per one-way commute. To qualify for this alternative, the City must have a written policy prohibiting personal use other than for commuting and "de minimus" personal use (such as a stop for a personal errand on the way between a business delivery and the employee's home). It is also necessary that the employee be required for "bona fide non-compensatory reasons" to travel to and from work in the vehicle. Being on call or standby would be such a reason. Finally, the employee may not be an elected official of the City or an employee whose annual pay is at least Federal Government Executive Level V (\$148,700 for 2015) or more.

3) Lease Value Rule:

This method is used if neither of the rules (1) or (2) above is applicable. If the City provides a vehicle to an employee which is generally available to him or her, and is subject to personal use in addition to commuting, the employee must be subject to taxation on the personal use. This requires that the personal and business use be substantiated (presumably through a daily log). It calculates the value of the benefit by determining the annual lease value of the vehicle as follows:

- a. Determine the fair market value of the vehicle when first made available.
- b. Determine the annual lease value (ALV) from the table in IRS Publication 15-B, which is based on a four-year lease term. This value will generally stay the same for each year. If the vehicle remains in service after four years, it must be revalued and the ALV recomputed.
- c. Multiply the annual lease value by the percentage of personal miles out of the total miles driven by the employee.
- d. If you provide fuel, you must add its fair market value to the lease amount; you may use 5.5 cents per mile for this purpose. This is the value of the taxable benefit.

POLICY PROCEDURES:

1. Department Heads will complete and submit the *"Take-Home Vehicle Assignment Authorization Request"* form for approval by the City Administrator or designee. This request will be reviewed annually by July 1st by the Department Head and

resubmitted to the City Administrator for approval. Department Heads are responsible for initiating the annual re-approval process. This request will be accompanied by an acknowledgement form signed by the employee acknowledging having read and received this policy.

2. After obtaining approval from the City Administrator, the Department Head will forward the approved "Take-Home Vehicle Assignment Authorization Request" form to the City's Finance Department, Payroll Division. The Finance Department will be the primary repository for the approved "Take-Home Vehicle Assignment Authorization Request" forms. The Finance Department will not maintain documents for police undercover vehicles. For security purposes, all records for police undercover vehicles will be maintained in the Police Department following approval by the City Administrator or designee.
3. Department Heads are responsible for notifying the Finance Department in writing at least five days prior to the end of the pay period if there are any changes to the status of an employee's assignment of a take-home vehicle.
4. Once an on-call assignment has been approved by the City Administrator or designee, new requests are only necessary when changes in status (new employee, reassignment of duties, employee transfers, etc.) occur as part of the annual review.
5. Departments will be responsible for submitting the approved "Vehicle Take-Home Trip Log" forms to the Finance Department, Payroll Division no later than five working days after the end of each month, so that auto fringe benefit withholdings required by the IRS can be applied to the salary of the employee receiving the benefit.

FINANCE DEPARTMENT'S RESPONSIBILITIES:

Fringe benefits are considered to be a form of pay, so the fair market value of such benefits must be included in the employee's wages unless specifically excluded by federal tax rules. The Finance Department shall be responsible for:

1. Determining the appropriate valuation method to be used to calculate the value of each City employee's taxable benefit based on the careful assessment of the approved "Take-Home Vehicle Assignment Authorization Request" form.
2. Input commute trip data into the payroll system for auto fringe benefit withholding.
3. Update auto fringe benefit data in the payroll system.

EMPLOYEE RESPONSIBILITIES:

1. Employees who fail to comply with the requirements of this policy may be subject to disciplinary action according to appropriate City disciplinary procedures.
2. Where employees do not have valid authorization for use of a take-home vehicle in compliance with the above procedures, or during unforeseen emergency situations, such taxable value may be based on one of the valuation methods described above. The fair market value of fuel may also be taxable if a City credit card is used or the employee uses fuel owned by the City for those employees with unauthorized take-home vehicles.
3. For those employees with unauthorized take-home vehicle assignments that are not in compliance with the above procedures, in the event that the City failed to identify

the appropriate taxable amount and the City is liable for the employee's portion of the payroll taxes, the City shall have the right to deduct such payroll taxes from any future salary payments to the employee. Where the employee is no longer employed by the City, the City has the right to pursue any means necessary to recover payroll taxes paid on behalf of the employee.

4. This policy shall comply with all federal laws and regulations applicable to any aspect of this policy.
5. If the assigned vehicle is non-exempt as described above, the employee to whom it is assigned will incur the tax liability described above. That employee will be responsible for completing a new W-4 to adjust withholdings for this liability, if necessary.
6. Employees will be required to complete the daily "Vehicle Take-Home Trip Log" form for the non-exempt City vehicle and submit for the appropriate approval by the Department Head.

