



December 2021

Re: 2021 reporting of Taxable Fringe Benefits - Personal Use of Company Vehicles & Group Term Life Insurance

Dear Valued Client:

As year-end approaches, now is the time to begin gathering information needed to properly report certain taxable fringe benefits provided to employees during 2021.

Taxable fringe benefit for the value of personal use of company owned vehicles

The value of an employee's use of a company owned vehicle is a taxable fringe benefit reportable on federal Form W-2 and taxable for federal income tax purposes. This fringe benefit is currently not taxable for Pennsylvania state or PA local income tax purposes.

There are several methods to calculate the "value" of employee's personal use of a company owned vehicle.

Annual Lease Value (most common)

This method is utilized when both the commuting method and cents-per-mile method are not available. This is generally the most common method used by clients.

The value is determined using Annual Lease Value Tables published annually by the IRS. The Annual Lease Value is based on the Automobile Market Value, which is the FMV of the automobile on the first date it is available to any employee for personal use.

The amount of the taxable fringe benefit is the Annual Lease Value amount multiplied by the percentage of personal miles over total miles driven by the employee for the year.

What is Fair Market Value (FMV)?

Fair market value (FMV) is the amount a person would pay to buy the automobile from a third party in an arms-length transaction and includes purchase expenses such as sales tax and title fees.

Safe-harbor rules allow FMV to be your cost of purchase including sales tax, title fees and other purchase expenses. For leased vehicle the safe-harbor FMV can be either 1) manufacturer's invoice price plus 4% 2) manufacturer's suggested retail price minus 8% OR 3) the retail value of the automobile reported by nationally recognized pricing source.

Annual Lease Value does NOT include fuel

The value of fuel provided to an employee for personal use is not included in the Annual Lease Value amount and must be calculated. The value of fuel can be either actual FMV or calculated at 5.5 cents per mile for all miles driven by the employee for personal use.

4-year Lease Term

The annual lease values in the table are based on a 4-year lease term. These values will generally stay the same for the period that begins with the first date you use this rule for the automobile and ends on December 31 of the fourth full calendar year following that date.



The annual lease value for each later 4-year period is determined by the FMV of the automobile on January 1 of the first year of the later 4-year period. *If the special two-month accounting rule described below is used, figure the annual lease value for each later four-year period at the beginning of the special accounting period that starts immediately before the January 1 date of the first year of the of the later 4-year period.*

1. Commuting method - Only available to employees not owning a controlling interest in the company AND only if the employer limits all personal use except commuting and has a written policy in effect to support that.

The value equals **number of one-way commuting trips** multiplied by **\$1.50**

2. Cents-Per-Mile method - Available if either of the following are applicable:

- At least 50% of the vehicle's total annual mileage is for trade or business, OR
- The vehicle is driven at least 10,000 miles during the year by any combination of employees

However, you cannot use this method for an automobile if the fair market value, when you first make it available to any employee for personal use, is greater than the IRS maximum automobile value for the year. The 2021 value is \$51,100 and will be adjusted annually for inflation. An employer with a fleet of 20 or more automobiles may use a fleet-average value. The 2021 maximum value for a fleet's passenger automobile, truck or van is \$51,100. Also, if the cents-per-mile is used for a particular vehicle, it must be used for as long as the vehicle is owned by the employer and must be selected in the year the vehicle is first used for personal purposes.

The value using the cents-per-mile method for 2021 is determined by multiplying **the total miles the employee drives the vehicle for personal purposes** by **the 2021 standard mileage rate of \$0.56**.

Special accounting rule for all calculating the value of all non-cash fringe benefits: Two Month Accounting rule

Under a special rule, benefits provided in November and December, or a shorter period in the last two months of the year, may be treated as paid in the following year. You may only treat the value of benefits provided during the last two months as paid in the subsequent year. You do not have to notify the IRS that you are using this special accounting rule.

An employer may use this rule for some fringe benefits and not others. The special accounting period does not need to be the same for each fringe benefit. However, if an employer uses the special accounting period rule for a particular benefit, it must use the rule for all employees who receive that benefit.



Information needed for Herbein to calculate the value of the personal use a company vehicle by an employee

Assuming the Annual Lease Value method will be used, we need the following information to calculate the amount of the taxable fringe benefit to be included in the employee’s taxable wages for the current year:

- A. Employee/Shareholder: _____
- B. Vehicle Description: _____
- C. Fair Market Value (FMV) of Vehicle at start of use (if use started in 2021): _____
- D. Total Miles Driven: _____
- E. Total Personal Miles: _____
- F. Two-Month Accounting Rule? Yes _____ No _____
- G. Does Company pay gas & oil? Yes _____ No _____
- H. For clients using a payroll service - last paycheck call in date in 2021 _____
- I. Payroll Service and Contact Name: _____
- J. Did employee exceed the FICA limit (\$142,800) for 2021? Yes ___ No _____
- K. Did employee exceed the \$200,000 of W-2 income? Yes ___ No _____

OR

If you drive your own vehicle on corporate business and the company pays for 100% of the gas used in that vehicle, please provide us with the personal miles driven in the vehicle in 2021.

2021 Personal Vehicle Information

Total Miles Driven: _____
 Business Miles Driven: _____
 Personal Miles Driven: _____

Finally, if you do not provide vehicles to employees/shareholders, please sign the statement below and return it to us.

This is to state that during the 2021 tax year, this company does not have any employees with taxable fringe benefits for vehicles

Signed: _____
 Company Officer

 Corporation Name



Additional compliance documents for employee use of company owned vehicles

In addition to the information included in this letter the following are additional suggested compliance documents to consider with respect to the employee use of company owned vehicles. Contact us to obtain any of these documents, which are also available in the Resources area in the Insights section of our website:

- **Employer Notification of Elections Concerning the Personal Use of Employer-Provided Automobiles (Employer Statement)** - Employee acknowledgement of the taxable fringe benefit from the employee’s personal use of company provided vehicle
- **Vehicle Information Summary - Non-Cash Fringe Benefit Computation** - form for employee to provide information necessary to calculate the value of personal use of a company provided vehicle
- **Written Policy Statement - Prohibiting Personal Use of Vehicles** - employee consent to company policy prohibiting personal use of company owned vehicles
- **Written Policy Statement - Prohibiting Personal Use of Vehicles Other than Commuting** - employee consent to company policy prohibiting personal use of company owned vehicles other than for commuting

Group Term Life Insurance Fringe Benefit

Another common employee fringe benefit is Group Term Life Insurance. Under current tax law an employer can provide up to \$50,000 of group term life insurance coverage to an employee tax-free. Premiums for amounts provided more than \$50,000 of coverage are taxable to the employee as wages and are subject to Social Security tax withholding. However, the taxable group term life premiums are not subject to federal income tax withholding and are generally not subject to FUTA taxes if paid under an employer plan. Also, the premiums are generally not taxable for Pennsylvania or PA local income tax purposes. If you are using a payroll service these amounts must be reported and the appropriate taxes withheld by the last pay period of 2021.

If you are not using a payroll service and would like us to calculate the amounts that need to be included in your payroll, please provide our office with the following information before you run your last payroll for 2021:

A. Employee Name: _____

B. Amount of Coverage: _____

C. Premiums Paid for 2021: _____

Please note Forms W-2 prepared by Herbein + Company, Inc. cannot be processed until to necessary information regarding these taxable fringe benefits is provided to us.

Thank you for your cooperation.

Sincerely,

Herbein + Company, Inc.

**EMPLOYER NOTIFICATION OF ELECTIONS CONCERNING THE PERSONAL USE OF
EMPLOYER-PROVIDED AUTOMOBILES
(EMPLOYER STATEMENT)**

MEMO: Employer notification of elections concerning the personal use of employer-provided automobiles

TO: Employees

FROM: Management

Vehicle Description: _____

Management has provided you with the above vehicle and has made the following election relative to such vehicle.

The personal use of an employer-provided vehicle is a “taxable fringe benefit.” Accordingly, management will calculate such value using the method that results in the lowest taxable fringe benefit value to the employee. To assist management in this calculation, you are required to complete the “Vehicle Information Summary” sheet, which is also attached, and maintain adequate records to substantiate such information. If the required information is not provided, management will have to value the benefit using the Fair Market Value Method, which is usually higher. The value of the benefit will be included in your compensation. Although this compensation is subject to Medicare, FICA and federal income tax withholding, management has elected not to withhold for federal income tax purposes. Therefore, you may want to adjust your withholding allowance (Form W-4) for any additional income tax related to this taxable fringe benefit.

Employee Notification:

I have read the above notification and understand its implications.

Employee Signature

Date

**VEHICLE INFORMATION SUMMARY
NON-CASH FRINGE BENEFIT COMPUTATION**

FOR THE PERIOD ENDED: _____

Employee Name: _____

Company Name: _____

Description of Vehicle: _____
Year
Make
Model

Date Vehicle Placed in Service: _____

Vehicle I.D. Number: _____

1. Total number of miles driven during the year. _____
2. Percentage of personal use claimed. _____
3. Was the vehicle used for commuting? Yes ___ No ___
4. If answer to question #3 is yes, what is the total commuting mileage? _____
5. Was the vehicle available for personal use in off duty hours? Yes ___ No ___
6. Was another vehicle available for personal use? Yes ___ No ___
7. Do adequate records or sufficient evidence exist to justify the deduction for business/investment use? Yes ___ No ___
8. If the answer to question #7 is yes, are the records or evidence written? Yes ___ No ___
9. Was the vehicle used by a person who owns more than 1% of the outstanding shares of stock? Yes ___ No ___
10. Was the vehicle used by a relative of such shareholder? Yes ___ No ___
11. Did the employer pay the cost of fuel consumed by this vehicle? Yes ___ No ___

Beginning Odometer: _____

Ending Odometer: _____

Total Mileage: _____



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Business Miles Driven: _____ Percentage of Business Use: _____

Personal Miles Driven: _____

Was vehicle out of service for more than 30 days? Yes ___ No ___

Date vehicle placed in service: _____

Number of days in use: _____

Non-reimbursed expenses: _____

Reimbursed expenses: _____

I HEREBY ATTEST THAT THE INFORMATION LISTED ABOVE IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE.

Employee Signature

Date



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**WRITTEN POLICY STATEMENT
PROHIBITING PERSONAL USE OF VEHICLES**

MEMO: Personal Use of Vehicles

TO: Employees

FROM: Management

Vehicle Description: _____

Management has provided you with the above vehicle and has adopted the following policy relating to such vehicle.

All personal use of employer-provided vehicles is prohibited, except for de minimis, such as a stop for lunch between two business deliveries.

Management will include a taxable fringe benefit in the compensation of any employee who violates the above policy.

EMPLOYEE CONSENT:

Having read the above policy statement and understanding its implications, I hereby consent to follow the policy.

Employee Signature

Date



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**WRITTEN POLICY STATEMENT
PROHIBITING PERSONAL USE OF VEHICLES OTHER THAN COMMUTING**

MEMO: Personal Use of Vehicles

TO: Employees

FROM: Management

Vehicle Description: _____

Management has provided you with the above vehicle, requiring that you commute in it, and has adopted the following relating to such policy.

All personal use of employer-provided vehicles is prohibited, except for commuting and de minimis use, such as a stop for lunch between two business deliveries.

Management will include in your compensation a taxable fringe benefit in the amount of \$1.50 for each one-way commuting trip. Therefore, employees need only provide information relating to the number of commuting trips.

Employees who violate the above policy will be required to substantiate all vehicle use (including business, personal and commuting). Management will use this substantiation to compute the taxable fringe benefit under either the cents-per-mile or annual lease value rule, whichever is applicable. Either method will probably produce a higher taxable fringe benefit.

EMPLOYEE CONSENT:

Having read the above policy statement and understanding its implications, I hereby consent to follow the policy.

Employee Signature

Date