

PERSONAL USE OF BUSINESS OWNED VEHICLES

By: CHRISTINA ROWLAND, MBA

I was once asked at the end of an interview, “What would you like your compensation package to be?” That would have been the perfect opportunity to ask for a company car, but alas, I missed my chance. For those employers who **DO** provide company cars to their employees or shareholders, let’s talk about the tax implications if there are no restrictions on the personal use of the vehicle.

Personal use of a company vehicle is considered “non-cash” compensation and should be included as wages on the employee or shareholder’s W-2. This means that the value of the personal use needs to be calculated by the company before the final paychecks are cut for the calendar year.

An employer has the option to report 100% of the value of the vehicle use in the employee’s wages or to only report the portion calculated as personal use. If the employer reports 100%, the employee can deduct the business use on his or her individual return. However, if the employee doesn’t use itemized deductions, there won’t be any tax benefit. If the employer reports only the personal use portion on the W-2 of the employee/shareholder, the employee would not deduct the business use on his or her personal return.

No matter which method the employer decides to use, it is important for the employee to have good documentation of the business use of the vehicle. A mileage log of the business use is the method preferred by the IRS. The mileage log should include the date and purpose of each trip, the destination and the business miles driven (or the beginning and ending odometer reading). A mileage log can be as simple as recording your daily driving activity on your calendar.

Another consideration is who will be paying the taxes on this additional compensation. For federal withholding tax, the additional tax can be calculated with the employee/shareholder’s regular wages and reduce the net wage paid on that check. Or if the employee is notified, the employer can choose not to withhold federal income tax if the value is reported properly on a timely filed W-2. The employee portion of Social Security and Medicare tax can be paid by the employee or employer. If the employer pays the tax, it should be included in the employee’s taxable income as well.

Now is the time to review your list of employee driven vehicles and ask yourself:

1. Do I have proper documentation on the business use of each vehicle?
2. Do I need to calculate and include personal use on any W-2’s?
3. Who will be paying the taxes on the personal use income?



12101 Woodcrest Executive Dr., Ste. 300
St. Louis, MO 63141-5047
Tel: 314-205-2510
Fax: 314-205-2505
www.connerash.com

An independent member of BKR International



If you have questions about this or any other business or tax issue, please contact your Account Manager or Christina Rowland, MBA at (314) 205-2510 or by email at crowland@connerash.com.