Where the Rubber Meets the Road—New Maximum Values for Calculating Taxable Amount of Personal Use of Employer-Provided Vehicles

Newly proposed Internal Revenue Service (IRS) regulations impact the way employers calculate the value of employer-provided vehicle use, by increasing vehicle maximum value limitations and broadening the availability of alternative calculations methods. The Tax Cuts and Jobs Act (TCJA) ushered in increased maximum dollar limitations for employer passenger-automobile depreciation deduction and employee personal-use income inclusion calculations. Until final regulations are published, taxpayers can rely on IRS REG-101378-19, along with a related Notice containing inflation-adjusted amounts.

Specifically, the proposed regulations harmonize the TCJA’s increased maximum values of employer-provided vehicles with the application of those maximum values to personal-use value calculations, the expanded availability of alternative methods for employers to make those calculations (given the new maximum values), and certain transition rules.

Employer-provided vehicles used by employees for both business and personal purposes result in income that is taxable to employees as wages, to the extent of the value of their personal use. Accordingly, those deemed wages are subject to all
employment taxes.

The value of substantiated business use is **not** taxable to the employee, unless the employer chooses to include the value of all employee use as wages. In such a case, the employee may reimburse the employer for the value of personal use so that it will not be treated as wages.

The default rule for calculating the employee personal-use value amount is fair market value (FMV). For this purpose, FMV is generally\(^1\) the vehicle’s lease value—for a comparable vehicle in the same geographic area—multiplied by the percentage of personal use for the tax year. FMV must be calculated on the first day a vehicle becomes available to an employee, using tables contained in certain regulations or IRS publications.\(^2\)

In addition to the default rule, the proposed regulations describe longstanding alternative methods that employers may use for calculating the FMV of an employee’s personal use of his or her employer-provided vehicle. These alternative methods are known as the fleet-average or vehicle-cents-per-mile valuation rules. In order to qualify to use any of those alternative methods, the vehicle’s FMV must be less than the qualifying maximum values set forth in the regulations. Prior to the proposed regulations and the TCJA, those maximum values were:

- $15,600 for the fleet-average rule.
- $12,800 for the vehicle-cents-per-mile rule.

For both methods, the proposed regulations and the TCJA increased the maximum value to $50,000 for 2018, and the Notice increased the maximum value to $50,400\(^3\) for 2019, to reflect the required annual inflation increase. The new maximum value limitations resulted from the new depreciation limits for luxury automobiles changed under the TCJA.

The methodology behind the calculations has not changed from the regulations that were in effect before the proposed regulations.

The fleet-average valuation rule is a subset of the automobile lease valuation rule, and it can be used by an employer as of January 1 in the year following the calendar
year when a fleet of 20 or more vehicles has been acquired. When an employer qualifies to use the fleet-average method, the average FMV (in the form of the annual lease value) of the fleet can be used for every automobile in the fleet.

Under the vehicle-cents-per-mile valuation rule, an employer provides an employee a vehicle and reasonably expects the vehicle to be used in trade or business. In addition, the vehicle must be driven a minimum of 10,000 total miles during the year and be available to the employee for personal use. Employers choosing to adopt this rule must do so by the first day the employee uses the vehicle for personal use and must apply the rule for all subsequent years the vehicle is deemed a qualifying vehicle. To calculate the value of personal use, the total number of miles the employee drives for personal purposes is multiplied by the standard mileage rate in effect for the tax year.

Employers that previously did not qualify to use either the fleet-average or vehicle-cents-per-mile valuation rules may take advantage of transition rules provided by the IRS. If an employer did not qualify to use either rule in prior years, it may adopt the fleet-average valuation rule in 2019, if the requirements are met using the $50,400 limitation and notwithstanding when the vehicles became a fleet of 20 or were first used. Similarly, an employer may adopt the vehicle-cents-per-mile valuation rule for 2019, if the requirements are met using the $50,400 limitation and notwithstanding when the vehicles were first used.

For more information about these new proposed regulations, other business tax rules, tax preparation, tax planning, or tax advice, contact a PYA executive below at (800) 270-9629.

1 Under all the rules and circumstances, and generally the value of an arms'-length lease. Other rules may apply in certain other circumstances.

2 Adjusted upward if fuel is provided by the employer.

3 All future annual inflation increases will be announced by the IRS annually along with standard mileage rates.