

## Travel – Personal Use of State Vehicles

### FIACCT 10-01.00

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## Purpose

This document defines the policies and procedures state agencies must follow to ensure compliance with IRS and Administrative Rules regarding the taxation of personal use of state vehicles.

## Background

As a general rule, the personal use of state vehicles is prohibited. However, there are some exceptions. These exceptions must be handled in accordance with IRS Publication 15-B and Administrative Services, Fleet Operation's Administrative Rule R27.

The State has grouped these exceptions into the following 3 categories:

- A. Commuting Use in a state vehicle: taxable at \$3 per day under IRS Commuting Rule. (See Commute Use in Admin Rule R27.)
- B. Commuting in a qualified nonpersonal-use vehicle: nontaxable. (See Take-Home Use in Admin Rule R27.)
- C. Personal Use Vehicles Authorized by the Legislature and Commuting Use Not Eligible Under Section (A): taxable under the IRS Lease Value Rule. (See Compensation Vehicle in State Law and Fleet training.)

## Policy

### Approval by Department Executive Director Required

Before an employee may commute in a state vehicle, it must be approved by the employee's Department Executive Director. See Administrative Services, Fleet Operations Administrative Rule [R27-3](#). The Department Executive Director must ensure any commuting in a state vehicle is in compliance with Administrative Rule R27 and IRS Publication 15-B.

### Authorization by State Statute Required

An Elected or other State Official may be assigned a state vehicle as part of their compensation package only when authorized by the Legislature. Depending on the Legislative authorization, the state vehicle may be used for both business and personal use. However, the personal use of the vehicle is taxable and will be added to the State Official's W-2.

### A. Commuting in a State Vehicle Under the IRS Commuting Rule (Taxable)

#### IRS Commuting Rule

The IRS Commuting Rule may only be used for an employee's travel in a state vehicle between the employee's place of residence and place of business if all of the following conditions are met:

1. It is required by the employer for legitimate business reasons and **NOT provided as a form of compensation to the employee;**
2. The employee is not allowed to use this state vehicle for **any** personal use other than commuting;

3. The employee is not an elected official; and
4. The employee's total salary and wages must be less than the Federal Government Executive Level V compensation amount. For calendar year 2023, this amount is \$172,100.

If all the above criteria for the IRS Commuting Rule are met, the employee's commute in a state vehicle will be valued for tax purposes at \$1.50 per one-way commute or \$3 round trip. If any of the requirements of the IRS Commuting Rule are not met, commuting income will be accounted for using the IRS Lease Value Rule (See Section C).

#### Taxable Amount Automatically Added to Payroll

To improve compliance with the IRS Commuting Rule, a \$30 (10 days at \$3.00 per day) non-cash taxable amount will be automatically added to the employee's payroll records each pay period and reported on the employee's IRS form W-2 (W-2) as taxable earnings. In cases of carpooling, the IRS requires the amount to be added to the income of each employee in the vehicle.

If an employee's actual commute differs from the \$30 per pay period, the department should submit, on a monthly basis to the Division of Finance, a properly approved Employee Reimbursement/Earnings Request form FI 48 for the employee, with an explanation and the correct taxable amount. The Division of Finance will correct the employee's payroll record with the correct taxable amount.

### **B. Commuting in Qualified Nonpersonal-Use Vehicle (nontaxable)**

#### Qualified Nonpersonal-Use Vehicle

Commuting between an employee's home and place of business in a Qualified Nonpersonal-Use Vehicle is not taxable as long as the requirements in IRS publication 15B are met.

A Qualified Nonpersonal-Use Vehicle is defined by the IRS as a state vehicle that employees are not likely to use more than minimally for personal purposes because of its design. These state vehicles generally include police, fire, and public safety vehicles; unmarked vehicles used by law enforcement officers if the use is officially authorized and use is related to law enforcement functions, such as being able to report directly from home to an emergency situation; any vehicle designed to carry cargo with a loaded gross vehicle weight over 14,000 pounds, etc. For a complete list see IRS Publication 15-B.

Also see Administrative Rule R27 for Take-Home Use requirements.

### **C. Personal Use Vehicles Authorized by the Legislature and Commuting Not Eligible Under Section (A)**

Personal use of vehicles authorized by the Legislature and commuting use for scenarios ineligible for the IRS Commuting Rule must use the IRS Lease Value Rule for determining income reported to the IRS. The value of the "income", including fuel, for the miles driven for personal use as determined by the Division of Finance based on IRS Rules, will be added to the individual's W-2. This income is subject to FICA withholding.

In order for the business use of the state vehicle to be nontaxable to the individual, each business trip must be well documented in a Trip Log (described later in this policy). Any personal use of the state vehicle including commuting between the individual's home and place of work, is taxable to the individual.

The individual is required to at least annually submit 1) the beginning and ending odometer readings for the reporting period and 2) the detailed Trip Log, to the Division of Finance according to the detailed instructions and deadlines which are sent out to the individuals each November by the Director of the Division of Finance.

Trip Logs may also be reported to the Division of Finance monthly or quarterly. If the Trip Log is not submitted to the Division of Finance by the due date, the entire lease value of the vehicle for that year will be added to the individual's taxable income and included on their W2.

### Trip Log

The Trip Log must show the beginning and ending odometer readings of the state vehicle for the reporting period, which approximate a calendar year, and also a detailed record that includes all of the following information **for each business trip**:

- 1) Number of miles driven;
- 2) Date of trip;
- 3) Beginning and ending locations;
- 4) Description of business purpose of trip – not just the destination. *For example: Meeting with DAS to discuss data-sharing agreement.*

## **Procedures – After Authorization by Department Director and Fleet Operations**

### **A. Commuting in a State Vehicle Under the IRS Commuting Rule (Taxable)**

#### **Responsibility**

#### **Action**

#### **GGO Fleet Operations**

1. As part of the annual commute authorization process, provide the Division of Finance with the name and employee identification number (EIN) of the following:
  - a. Each employee who has been assigned a state vehicle with commute privileges.
  - b. Each employee who no longer has a vehicle assigned with commute privileges.

#### **DGO Division of Finance**

1. For employees assigned a state vehicle with commute privileges, update the employee's commute value Wage Type in the payroll system to automatically add \$30 per pay period to the employee's wages.  
For employees no longer assigned a vehicle with commute privileges, remove the employee's commute value from the payroll system.
2. If necessary, correct the taxable amounts that were automatically added to the employee's wages by adjusting the employee's commute value amounts in the payroll system according to the information in the properly approved FI 48 forms received from the employee's department.
3. Add the taxable amount to the employee's W-2 wages for federal and state taxation.

#### **Employee's Department**

1. If necessary, approve and submit to the Division of Finance the Employee Reimbursement / Earnings Request, form FI 48, the employee has prepared to correct the automatic \$30 per pay period charge (See Policy item A.)

2. During the year, notify the Division of Finance of changes to the employees who were authorized for commute privileges at the beginning of the year.
3. For at least 7 years maintain a file of documentation to show compliance with IRS Publication 15B and Administrative Rule R27.

**B. Commuting in Qualified Nonpersonal-Use Vehicle (nontaxable)**

<b>Responsibility</b>	<b>Action</b>
<b>DGO Fleet Operations</b>	1. Annually, as part of the annual commute authorization process, update Fleet’s list of employees who have been assigned a qualified nonpersonal-use state vehicle with commute privileges.
<b>Department</b>	1. For at least 7 years, maintain a file to document compliance with IRS Publication 15B and Administrative Rule R27.

**C. Personal Use Vehicles Authorized by the Legislature and Commuting Not Eligible Under Section (A)**

<b>Responsibility</b>	<b>Action</b>
<b>Individual</b>	<ol style="list-style-type: none"> <li>1. Maintain a Trip Log of the vehicle’s business usage, specifying beginning and ending odometer readings for the reporting period and for each business trip: the number of miles driven; the date of trip; the beginning and ending locations; and the description of business purpose of trip – not just the destination.</li> <li>2. Submit the Trip Log to the Division of Finance annually in accordance with the ‘State Vehicle Fringe Benefit Computation’ Memorandum issued by State Finance each November. The Trip Logs may also be submitted monthly or quarterly.</li> <li>3. If the Trip Log is not submitted to the Division of Finance the entire lease value of the vehicle for that year will be added to the individual’s taxable income and included on their W2.</li> </ol>
<b>DGO Fleet Operations</b>	1. Notify the Division of Finance of the cost of the vehicle.
<b>DGO Division of Finance</b>	<ol style="list-style-type: none"> <li>1. Calculate the taxable value of the personal use based on both the car’s value and the value of the fuel used for the personal miles in accordance with IRS regulations and schedules.</li> <li>2. Apply the taxable value to the wages subject to FICA withholding and add the taxable value to the W-2 wages for federal and state taxation.</li> </ol>