

Valuation Rules for Employer-Provided Vehicles

Cross References

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If an employer provides an employee with a vehicle that is available to the employee for personal use, the value of the personal use must be included in the employee's income. This income is generally treated as wages, subject the FICA, FUTA, and federal income tax withholding.

To determine the value of an employee's personal use, the IRS provides the employer with two optional special valuation rules:

- The fleet-average valuation rule, and
- The vehicle cents-per-mile valuation rule.

Author's Comment

If neither special valuation method is used, the employer must calculate the fair market value of the personal use through some other reasonable method.

The IRS recently issued final regulations for these special valuation rules to reflect changes made by the Tax Cuts and Jobs Act (TCJA). Prior to TCJA, the vehicle cents-per-mile valuation rule could be used only to value the personal use of a vehicle having a value no greater than \$12,800 as of the first date the vehicle was made available to the employee. The fleet-average valuation rule could be used only to value the personal use of vehicles having values no greater than \$16,500 as of the first date the vehicle was made available to the employee. TCJA increased these limitations to \$50,000 for both the vehicle cents-per-mile and the fleet-average valuation rules, adjusted annually for inflation.

Fleet-average valuation rule. This method is available for employers with a fleet of 20 or more automobiles. The fleet-average value is the average of the fair market value of all the automobiles in the fleet. This average is then used to determine an annual lease value. The value of the personal use is the portion of the annual lease value relating to the availability of the vehicle for personal use.

Vehicle cents-per-mile rule. This method is available if the employer provided vehicle is regularly used by the employee in the employer's trade or business. The vehicle must be driven at least 10,000 miles during the year. The value of the personal use is determined based on the applicable standard mileage rate for the year multiplied by the total number of miles driven by the employee for personal purposes.

Transition rules. Many vehicles used by employees were first used by the employees prior to the effective date of TCJA. In cases where the fair market value of a vehicle exceeded

the limitations under prior rules on the date the vehicle was first used by the employee, the final regulations provide for the following transition rules:

- 1) If an employer did not qualify to use the fleet-average valuation rule prior to January 1, 2018 because the fair market value of the vehicle exceeded the old inflation-adjusted maximum value, the employer may adopt the fleet-average valuation rule for 2018 or 2019, provided the fair market value of the vehicle does not exceed \$50,000 on January 1, 2018, or \$50,400 on January 1, 2019.
- 2) If an employer did not qualify to use the vehicle cents-per-mile valuation rule prior to calendar year 2018 because the fair market value on the first day the vehicle was used by the employee exceeded the old inflation-adjusted limitation, the employer may first adopt the vehicle cents-per-mile valuation rule for the 2018 or 2019 tax year with respect to the vehicle, provided the fair market value of the vehicle does not exceed \$50,000 on January 1, 2018, or \$50,400 on January 1, 2019.
- 3) If the commuting valuation rule under Regulation section 1.61-21(f) was utilized when the vehicle was first used by an employee, and the employer did not qualify to switch to the vehicle cents-per-mile valuation rule on the first day on which the commuting valuation rule was not used because the vehicle had a fair market value that exceeded the old inflation-adjusted limitations, the employer may adopt the vehicle cents-per-mile valuation rule for the 2018 or 2019 tax year, provided the fair market value of the vehicle does not exceed \$50,000 on January 1, 2018, or \$50,400 on January 1, 2019.