

Accounting for Employee Auto Usage

We often receive questions from clients about the best way to handle employee usage of their personal car for occasional business use, or personal use of a company-provided vehicle. The following summary describes the four most used methods for accounting for employee auto usage & the payroll implications of each.

1) Amounts that are paid and taxed to employees as compensation for auto use without regard to documentation of expenses.

- This method is typically used where an employee has used his/her personal auto for business purposes. These amounts are paid directly to the employee as ordinary compensation and taxed accordingly. The amounts are included in Boxes 1, 3 & 5 on the W-2. Since these payments are included in taxable income, the employee has the option of taking a personal income tax deduction for actual auto expenses on their income Tax Return as an itemized deduction on Schedule A.

2) Amounts that are taxed, but not paid to the employee. (Fringe)

- The intention here is to quantify the non-business benefit the employee receives through personal use of a company provided car. This value is treated as taxable fringe, either periodically or annually. The amounts recognized as income are quantified using a formula to determine the percentage of personal use vs. business use of a company car. Such amounts are included in Boxes 1, 3 & 5 as taxable income, and typically disclosed in Box 14 as a fringe benefit, labeled "Auto".

3) Auto Expenses that are not taxed, but paid to employees based upon actual auto expenses. (Mileage Reimbursement)

- These are reimbursements for business use of a personal vehicle and are not taxed or disclosed at all on the W-2. They are typically summarized on a personal expense report, and reimbursed at the current Federal Mileage Rate, or a percentage of actual expenses. They can be reimbursed through payroll or accounts payable.

4) Auto Expenses that are not taxed, but are paid as a flat, on-going amount through payroll.

- These amounts are paid without regard to documentation of actual expense for business use of a personal auto and are not included in taxable income. They are reported on the W-2 in Box 12, code L. This reporting method places a heavy reporting burden on the employee, who is obligated to substantiate business use of their auto on their personal tax return. Failure to do so will cause the IRS to impute additional taxable income to the extent that documented expenses fall short of the amounts received. This reporting method frees the employer of responsibility for requiring details of the expense, but shifts it to the employee.