THE STATE of ALASKA
GOVERNOR MIKE DUNLEAVY

Department of Administration

DIVISION OF FINANCE
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Memorandum

To: State of Alaska Vehicle Users

From: Mallorie Fagerstrom, CPA
State Accountant

Date: January 25, 2021

Subject: **Personal Use of State Vehicles**

An employee's personal use of state vehicles is a taxable benefit to the employee and must be reported on the employee's W-2. Note that Internal Revenue Service (IRS) considers commuting between the employee's home and work personal use of a state vehicle and a taxable benefit to the employee. This is true regardless of whether the employer directs the employee to take the vehicle home.

The use of state vehicles for an occasional personal errand is considered a de-minimis fringe benefit and is non-taxable. De minimis means infrequent and irregular, which is further defined as no more than one time per month, or twelve times per year. The IRS also exempts certain types of vehicles, i.e. clearly marked police and fire vehicles, from the reporting requirements. The policy and procedures that govern the use of state vehicles are under the Department of Transportation and Public Facilities (DOTPF) Policy and Procedure Number 11.04.010. These are available on DOTPF's web page at www.dot.state.ak.us under the Divisions/Section tab, resources and documents heading then policies and procedures. This procedure includes the rules for state vehicle use, outlines required approvals, defines exempted vehicles, and also includes a log for reporting purposes.

EMPLOYEE RECORD RETENTION RESPONSIBILITIES:

The IRS regulations require that "adequate records or sufficient evidence" to support claimed business use of employer provided vehicles must be maintained. The state utilizes the commuter value rule for calculating the taxable income. This method requires maintenance of a log or record of the number of commuting trips made during the year. The log in the vehicle policy was developed to substantiate business use by summarizing personal use commuting trips.

Written records made at or near the time of use are less refutable by the IRS than oral substantiation. Failure to maintain adequate records may result in the full value of the vehicle being reported as taxable income on the employee's W-2. This is a higher valuation method and will result in greater tax consequences. Thus, it is beneficial to the commuting employee to maintain adequate records to allow utilization of the commuter value rule.

CALCULATING THE TAXABLE VEHICLE BENEFIT:

The state will use the commuter valuation rule if logs are maintained and submitted. However, if sufficient information is not submitted, the annual lease valuation rule must be used. Note that once the lease valuation rule is used to calculate taxable vehicle income, that method must be used every year unless the employee qualifies to switch to the commuting valuation method.

The commuting valuation rule values the personal use at a flat rate for each commute, $1.50 one way or $3.00 round trip. This rule can be used if logs are maintained and all the following conditions are met:

(1) the vehicle is used in the employer's business;
(2) the employer requires the employee to commute to and from work in the vehicle;
(3) the employer has a written policy prohibiting personal use other than commuting and de-minimis personal use;
(4) the employee, except for de-minimis personal use, does not use the vehicle for any personal purpose other than commuting; and
(5) the employee's compensation is less than the Federal Government Executive Level V salary, which is $161,700 for 2021 (https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/).

The annual lease valuation rule values the personal use based on the cost of the vehicle or its fair market value (blue book or equivalent) on the first day it is made available for personal use. The fair market value of the vehicle must be revalued as of January 1 after each full four-year period. The annual lease value for the vehicle is derived from comparing the vehicle's fair market value to an IRS table (IRS Publication 15-B). The lease value from the IRS table is multiplied by total personal use percentage[1] to determine taxable vehicle income. Fuel is not included in the annual lease valuation, so if fuel is provided by the state, an additional 5.5 cents per mile driven for personal use or the actual cost of gasoline multiplied by the personal use percentage must be added to the calculated taxable income.

EMPLOYEE ACTION REQUIRED:

Monthly, the employee must complete employee personal use commuter log in DOTPF Policy and Procedure 11.04.010 and submit it to the department vehicle manager, who sends it to the technical services group for entry into the payroll system. If the form is not submitted, the state has no other alternative than to utilize the lease value rule for employees who drive state vehicles between work and home. If the employee cannot substantiate the amount of personal versus business use incurred, the total lease value of the vehicle will be considered the fringe benefit received. Do not wait until the end of the calendar year to submit multiple months' worth of forms.

If you have any questions or require clarification of this information, please contact myself, the department vehicle manager, or your Payroll Services Section contact within the Division of Personnel and Labor Relations.

cc: Administrative Service Directors
State Finance Officers
Kate Sheehan, Director of Personnel & Labor Relations
Brad Bylsma, State Equipment Fleet Manager

[1] Theoretical calculation is total personal miles divided by total miles driven. But, if no records of personal versus business use are maintained, the personal use percentage will be deemed 100%.