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PAYROLL BULLETIN
1-86

TO: All State Agencies

SUBJECT: Personal Use of State Vehicle Income

This Bulletin supplements Payroll Bulletin 3-85 (July 24, 1985) concerning the taxation of the value of the "personal use" of State vehicles.

The Internal Revenue Service has recently issued additional Regulations providing guidance and clarification for valuing the personal use of the State vehicles by State officers and employees. For the most part, the new Regulations do not change the underlying requirement that employers, including the State of Illinois, must treat the fair market value of employee personal use of State vehicles as a taxable fringe benefit to be included in the employee's income.

Valuation of Personal Use

In addition to the general valuation rule outlined in Payroll Bulletin 3-85, where the percentage of personal usage is applied to the annual lease value of the vehicle, Special Valuation Rules are provided as follows.

A. The new Regulations create a Special Valuation Rule for valuation of personal use of State vehicles not previously available; and, therefore not contained in Payroll Bulletin 3-85.

   A vehicle cents-per-mile valuation may be applied to the total number of personal miles where:

   1) The value of the vehicle does not exceed $12,800; and

   2) The vehicle is reasonably expected to be regularly used in the employers business; or

   3) The vehicle is actually driven by employees at least 10,000 miles in a calendar year.

Where the preceding conditions are met, the personal use of the State vehicle may be calculated at 21 cents-per-mile for the first 15,000 miles and 11 cents-per-mile for each additional mile. This amount includes the value of maintenance, insurance, gas and oil.

B. Where the conditions specified in Payroll Bulletin 3-85 are met, the value of the commuting use of a State vehicle may be valued at $1.50 per one-way commute. In the case where more than one employee commutes in a State-provided vehicle, such as in the case of an employer provided car pool, the value of the commuting use is $1.50 per one-way commute per employee.

This special rule for commuting may not be used to value the commuting of a State-provided vehicle by a "control employee". A "control employee" is:

1) An elected official; or

2) A State officer appointed by the Governor and confirmed by the Senate.

C. The preceding Special Valuation Rules need not be utilized for all vehicles provided to all employees. For example, an employer may use the automobile lease valuation rule for automobiles provided to some employees, and the commuting and vehicle cents-per-mile valuation rules for automobiles provided to other employees. Effective January 1, 1986, if an employer uses one of the Special Valuation Rules, the employee may not use another Special Rule to value that benefit. The employee may, however, use the general lease valuation rule.

Also effective January 1, 1986, an employee may only use a Special Valuation Rule if the employer uses the rule. If a Special Rule is used, it must be used for all purposes. If an employer properly uses a Special Rule and the employee uses the Special Rule, the employee must include in gross income the amount determined by the employer under the Special Rule less any amount reimbursed to the employer. The employer and the employee may use the Special Rules to determine the amount of the reimbursement. Effective January 1, 1987, agencies electing to use a Special Valuation Rule must notify the employee of the election by January 31 of the calendar year of the election, or 30 days after first providing the vehicle to the employee. Notification of the Special Rule usage for 1986 must be made by March 31, or 30 days after first providing the vehicle. A sample notification is attached as Exhibit I-A.

Recordkeeping

Under the new recordkeeping rules, "adequate records" or "other sufficient evidence" must be maintained by employees to substantiate the business versus personal use of State vehicles.

Generally, to satisfy the "adequate records" requirement, a log, account book, diary, expense report or similar record made "at or near" the time of use must be kept along with any supporting receipts (if any). The phrase " at or near" may refer to a period spanning the user's memory. In other words, if an individual has sufficient recall every week, or two weeks to make entries, this is permissible.

The level of detail required to substantiate business use will vary depending on facts and circumstances. For example, if customary travel patterns or job requirements involve frequent multi-stop periods, these can be summarized rather than recorded individually. In addition, a sampling method may be used for a portion of a month, quarter or week if that period is truly representative of the whole period. However, this sampling method may not be used if more than one employee is using the car.

The new recordkeeping requirements applicable to employees are effective January 1, 1986. State agencies may rely on copies of the employee's records or may accept summary statements based on employees' records. However, you should ensure that your employees are aware of the need to prepare and maintain "adequate records" for their tax preparation purposes. If the commuting rule is used to value personal use, the employer's written policy is deemed to constitute "adequate records".

Tax Reporting of Personal Use Income

A. An election may be made by the employing agency not to withhold federal and state income taxes.

   If you elect not to withhold federal and state income taxes for calendar 1986 you must notify your employees as soon as possible. A sample notification for this purpose was provided as Exhibit I to Payroll Bulletin 3-85.

   An election under this paragraph does not affect the duty to withhold Social Security (FICA) and Retirement, where applicable. In addition, employer contributions to Retirement and Social Security must be paid, where applicable.

B. Agencies may determine the frequency with which vehicle usage income will be reported and required withholdings taken.

   Generally, income must be reported and the required withholdings taken on a pay-period, monthly, quarterly or annual basis. In order to avoid hardship to employees and to minimize reporting problems caused by mid-year termination of employment, we would suggest that vehicle usage income be reported each pay period. In the event annual reporting is elected, employees must be notified. (See Exhibit II to Payroll Bulletin 3-85).

   Where income taxes are to be withheld, the frequency of reporting will affect the calculation of the amount to be withheld. (See Payroll Bulletin 3-85).

Except to the extent specifically provided herein, the procedures outlined in Payroll Bulletin 3-85 remain in effect. Questions concerning this Bulletin relating to income recognition and tax withholdings should be directed to Mr. Dan Steven of the Comptroller's Office, (217/782-4758). If you have questions concerning the Internal Revenue Service Regulations, please contact the IRS or your tax advisor.

Sincerely,

Larry Roth gd

Larry D. Roth
Director of State Accounting

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EXHIBIT 1-A

NOTIFICATION OF EMPLOYER ELECTION TO USE A SPECIAL VALUATION RULE

For calendar year 1986, we elect to report the value of your employer-provided vehicle by applying the annual lease valuation* rule and treating such value as the fair market value for income, employment tax and reporting purposes.

This rule will be used for the entire calendar year with regard to your vehicle, unless we notify you of a change.

*The same election language may be used for the commuting and cents-per-mile special valuation rules by substituting either of these terms.