

District Owned/Leased Vehicles Provided to Employees

Fringe Benefits Valuation Rules

The business use of a company-owned vehicle is excludable from taxable income. The personal use of the vehicle is taxable compensation. Federal wages must be reported; Social Security taxes and Medicare taxes (if subject) must be withheld on the value of personal use. Federal income tax does not have to be withheld for the personal use of the vehicle.

IRS issued Revenue Procedures 99-14 on February 1, 1999 for automobiles *first placed in service in 1999* which provides: (1) separate limitations on electric automobiles, (2) limitations on depreciation for owners of automobiles, (3) the amounts to be included in income by lessees of automobiles, and (4) the maximum allowable value for employer provided automobiles using the cents-per-mile method.

Districts that allow employees a district car for both business and personal use must include in Box 1/16 an amount representing the value of the personal use. If the employee does not report the personal use, the district must include a value that represents the entire use of the car in Box 1 & 16 as wages and must provide a statement to the employee.

The value of the use of the car can be determined with one of the following methods:

1. General Valuation Rule
2. Annual lease value
3. Vehicle cents per mile
4. Commuting Valuation

Notification Requirements

Each method has requirements limiting the use. The district must determine the valuation method to be used on each vehicle and notify the employee of the method. The notification must be made in writing by January 31 or within 30 days of when the vehicle was provided to the employee. Notifications should include the method by which the employee reports the personal use, when the use will be included in wages, and the district's choice to withhold or not withhold Federal income tax. The district must withhold Social Security and/or Medicare for employees whose wages are less than the Social Security and Medicare base for the year.

Districts are not required to use the same valuation method for all vehicles. Districts should use the method that will provide lowest wages for the employee at the lowest cost to the district for record keeping and calculating the wages. The district must continue to use the same valuation method for an employee for 4 years or until the vehicle is no longer used by the employee.

Notify Employee in Writing by January 31 or within 30 days of when vehicle provided

- Which valuation method used by district
- Method of reporting personal use (How employee will report)
- When personal use will be included in W-2
- The district's choice to withhold or not to withhold Federal Income tax

Note: Social Security/Medicare taxes must be withheld if employee is subject.

Valuation Rules

Report the personal use of the company vehicle by using the General Valuation Rule or one of the three Special Rules.

General Valuation Rule

Under this rule the fair market value of personal use of an employer-provided vehicle is the amount the employee would have to pay a third-party in an arm's-length transaction to buy or lease the same or similar vehicle on the same or comparable terms in the geographic area where the employee uses the vehicle.

Special Valuation Rules

- Annual lease value
- Cents-per-mile
- Commuting

For additional information, please see [IRS Publication 15-B](#) Employer's Tax Guide to Fringe Benefits.

Annual Lease Value

The Internal Revenue Service provides tables that are used to determine the annual valuation of use when the lease valuation rule is used. If the vehicle is transferred to another employee, the valuation is determined on the date of the transfer.

Having determined the annual lease value, you must derive the percentage of personal use. The personal use percentage is then applied to the Annual Lease Value with the amount included in the employee's wages. **If the district provides fuel, 5.5 cents per personal mile must be added to the total cost of the lease.**

➤ Determine the fair market value of the vehicle on first day it is available to employee. The value must be used for the first four calendar years employee has vehicle. After four calendar years, a new value must be determined.

For district-owned vehicles, the FMV of the car is the total cost of the car to an individual in an arm's length transaction including sales tax, title and fees.

For district-leased vehicles, FMV may be determined by one of the following:

- Manufacturer's invoice price (including options) plus 4%
- Manufacturer's suggested retail prices minus 8%
- Retail value from a nationally recognized pricing source such as the "blue book" (www.kbb.com)

➤ Find the annual lease value (ALV) using fair market value and IRS annual lease value table (provided on the next page).

➤ Multiply ALV by employee's personal use percentage of vehicle (personal miles divided by total miles driven).

➤ Add 5.5 cents for each personal mile if fuel was provided by employer or prorate fair market value of fuel provided using same ratio

Part-Year Annual Lease Valuation

The annual lease value is prorated if the use is for less than a full year.

$ALV \times (\# \text{ of days auto available divided by } 365) + \text{fuel value (if appropriate)} = PYALV$

IRS Annual Lease Value Table

(1) Automobile FMV	(2) Annual Lease
\$ 0 to 999.....	\$ 600
1,000 to 1,999.....	850
2,000 to 2,999.....	1,100
3,000 to 3,999.....	1,350
4,000 to 4,999.....	1,600
5,000 to 5,999.....	1,850
6,000 to 6,999.....	2,100
7,000 to 7,999.....	2,350
8,000 to 8,999.....	2,600
9,000 to 9,999.....	2,850
10,000 to 10,999.....	3,100
11,000 to 11,999.....	3,350
12,000 to 12,999.....	3,600
13,000 to 13,999.....	3,850
14,000 to 14,999.....	4,100
15,000 to 15,999.....	4,350
16,000 to 16,999.....	4,600
17,000 to 17,999.....	4,850
18,000 to 18,999.....	5,100
19,000 to 19,999.....	5,350
20,000 to 20,999.....	5,600
21,000 to 21,999.....	5,850
22,000 to 22,999.....	6,100
23,000 to 23,999.....	6,350
24,000 to 24,999.....	6,600
25,000 to 25,999.....	6,850
26,000 to 27,999.....	7,250
28,000 to 29,999.....	7,750
30,000 to 31,999.....	8,250
32,000 to 33,999.....	8,750
34,000 to 35,999.....	9,250
36,000 to 37,999.....	9,750
38,000 to 39,999.....	10,250
40,000 to 41,999.....	10,750
42,000 to 43,999.....	11,250
44,000 to 45,999.....	11,750
46,000 to 47,999.....	12,250
48,000 to 49,999.....	12,750
50,000 to 51,999.....	13,250
52,000 to 53,999.....	13,750
54,000 to 55,999.....	14,250
56,000 to 57,999.....	14,750
58,000 to 59,999.....	15,250

For automobiles with a FMV of more than \$59,999, the annual lease value equals (.25 × the FMV of the automobile) + \$500.

Cents per Mile Rule

The cents per mile in 2026 to calculate personal miles value when the employee and the vehicle meet certain requirements is listed below. These rates include maintenance, insurance, and fuel provided by the district. If the employee provides fuel, the valuation is reduced by 5.5 cents.

For 2026:

January 1 - June 30 = 72.5 cents per mile

July 1 - December 31 = 76 cents per mile.

The following conditions must be met for the district to use the cents per mile valuation method:

Can only be used if:

- Employee Expected To Use Vehicle For District Business only
- Vehicle Is Actually Driven At Least 10,000 Miles During The Year
- Vehicle Used Primarily By Employees
- Fair Market Value of Vehicle in **2026** Cannot Exceed IRS limits

Commuting Rule

An amount of \$1.50 per trip from home to work or \$3.00 round trip is to be included in an employee's wages when the commuting rule is used. To use the commuting rule, the following requirements must be met:

- Vehicle owned/leased by district and provided to one or more employees for use in district business
- District requires employee to commute to and from work in vehicle
- District has a written policy indicating no personal use other than de minimis
- Employee does not use vehicle for any purpose other than commuting
- Employee is not a control employee

*A control employee of a government employer is an elected official or anyone earning **\$184,900** or more (Executive Level V for **2026**)*

Enter reportables code **WVP** and total amount to report for 2026 on employee payline.