



Personal Use of a Company Vehicle

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There are numerous implications to having a vehicle owned by your small business especially if the vehicle is also going to be used personally. The personal use must be tracked and added back as a taxable fringe benefit subject to social security tax. This article looks at valuing the personal use of a vehicle, expenses that can be taken on a vehicle as well as some new limits for vehicle depreciation.

Valuing personal use of company vehicle

Whether a company supplies business autos to employees primarily as a perk or as a tool to help them get their work done, their personal use of the vehicle has tax implications for the employee as well as the small business owner.

The reason is that an employee's personal use of a company vehicle is treated as a non-cash taxable fringe benefit subject to social security taxes. Tax rules have given small business owners four valuation methods from which they can choose:

- the fair market value method is based on what a person would pay locally to lease a comparable auto for a period of time comparable to the period of time the employee has use of the car;
- the lease value method assigns an IRS-determined annual lease value to a vehicle depending on its value when it is first provided to the employee for personal use;
- the mileage rate method values each personal-use mile at the standard business mileage rate designated by the IRS; for 2008 the amount is 50.5 cents for the first six months, and 58.5 cents for the last six months; and
- commuting valuation method is based on \$1.50 per one-way commute.

The first two methods can be used for any auto and any employee. The mileage-rate method is for valuing the employee benefit of the personal vehicle use. The vehicle must be used regularly for business and can only be used if the car's fair market value doesn't exceed an annually adjusted figure, which for 2008 is \$15,000. The \$1.50 commuting valuation method can be used only if the employee isn't highly compensated, a company officer or director or a more than 1% company owner.

Expense deductions for vehicles

Small business owners who use a passenger automobile in the pursuit of business or in an income-producing activity can deduct certain costs related to its acquisition and maintenance. The deductible items include gas, oil, tolls, parking fees, insurance and depreciation.

For the business owners who use no more than four vehicles for business purposes, they can use the business standard mileage rate instead of actual expenses. The standard mileage rate from January 1, 2008 through June 30, 2008 is 50.5 cents per mile and from July 1, 2008 through December 31, 2008 is 58.5 cents per mile. The IRS estimates that U.S. small businesses will save 8 to 10 million hours a year by opting for the standard mileage deduction. If choosing the standard mileage deduction, you can still deduct parking fees, tolls, interest relating to the automobile's purchase and state and local taxes. If you want to use the standard mileage rate for a car in any year, you must choose to use it in the first year you place the car in service. After the first year you can switch to deducting actual expenses.

All expenses incurred must be allocated between business use and nondeductible personal use.

Depreciation

A special rule for 2008 allows an additional 50% first-year depreciation deduction and an \$8,000 increase to the annual limitation amount. Generally the depreciation deduction for vehicles placed in service in 2008 where the 50% bonus depreciation deduction does not apply is \$2,960 for the first year, \$4,800 for the second year, \$2,850 for the third year and \$1,775 for each subsequent year. If the 50% bonus depreciation applies in 2008, the allowable depreciation deduction is \$10,960 for the first year, \$4,800 for the second year, \$2,850 for the third year and \$1,775 each subsequent year.

The limits for trucks and vans placed in service in 2008 where the 50% bonus depreciation deduction does not apply is \$3,160 for the first year, \$5,100 for the second year, \$3,050 for the third year and \$1,875 for each subsequent year. If the 50% bonus depreciation applies in 2008, the allowable depreciation deduction is \$11,160 for the first year, \$5,100 for the second year, \$3,050 for the third year and \$1,875 for each subsequent year.

The above limits are reduced if the taxpayer business use of the vehicle is less than 100%.

Conclusion

If you are going to have a vehicle that is used personally and owned by a company, they must keep good records of personal use. The personal use of a vehicle affects most facets of the deductions taken on the vehicle and also has income implications for the person using the vehicle personally.

If you would like more information on this topic, please contact Doug Funke, at 800-765-2960 or dfunke@honkamp.com.

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