

City of Richmond

Administrative Manual

SUBJECT: IRS Commute Valuation Rule

SECTION: Finance

POLICY NUMBER: AP 509

INITIAL DATE PREPARED: August 25, 1999

LAST DATE REVISED: August 25, 1999

I. Purpose

To comply with Internal Revenue Service (IRS) requirements regarding the commute valuation and the personal use of company vehicles which became effective January 1, 1985.

II. Policy

The City of Richmond conforms with current IRS regulations by adjusting the W-2 forms of all employees who are assigned City vehicles to reflect the value of the commute between residence and work site for federal and state income tax purposes. Under these regulations, an employee's commute to and from work in a City-assigned vehicle is considered a beneficial use to the employee and its value must be reported to the IRS as taxable income.

III. Guidelines and Conditions

A. Commuting Valuation Rule (\$3.00 per day system)

1. To compute the value of the commute under this system, the City makes the following assumptions:
 - a. The commuting value for the personal use of the employer-provided automobiles is \$1.50 per one-way commute between home and work or \$3.00 per day. (See Internal Revenue Code Regulation 1.62.21(K).)
 - b. There is a standard of 220 work days in a year. This standard reflects adjustments for holidays and other types of paid leave.
 - c. The commuting valuation rule will not be used for those individuals who are classified as control employees. (A control employee whose compensation is equivalent to that paid to a federal government

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employee at the Executive Level One.)

2. Based on these standards, the annual gross income of eligible employees could be increased for federal and state tax purposes by a maximum dollar amount of \$660.
3. The City will prorate commute value compensation in cases where an employee has been assigned a City vehicle for only part of a year or where the employee has had extended absences (15 days or more) due to sick leave or on-the-job injury.
4. Under the \$3.00 per day system, personal use of City-assigned vehicles for purposes other than commuting to and from work is prohibited.

B. Annual Lease Valuation Method

1. Under this method, the value of the commute is established as follows:
 - a. Step One: Determine the lease value; that is, the amount that would be paid to lease the vehicle annually. The lease value is based on the fair market value of the vehicle at the time it is assigned to the employee. The IRS provides tables for this purpose.
 - b. Step Two: Calculate the percentages of personal miles driven during the year. (Personal miles driven divided by total miles driven.)
 - c. Step Three: Multiply the lease value in Step One by the percentage obtained in Step Two to determine the dollar amount to be included in an employee's gross income.
2. The City uses the annual lease valuation method for individuals who are classified as control employees.

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IV. Special Accounting Rule

The accounting year for purposes of computing the valuation of an employee's personal use of City vehicles is November 1 to October 31. The IRS permits an employer to elect a special accounting year to allow the employer sufficient time to calculate and process commute valuations for employees and make timely delivery of W-2 forms.

V. Payment of Taxes Due

- A. The City does not withhold federal and state income taxes on the value of the beneficial use of City assigned vehicles.
- B. It is the responsibility of the employee receiving the benefit to account for and pay the taxes when filing their respective tax return.

VI. Procedures

- A. Finance will maintain a list of personnel who have been assigned vehicles, including the dates during which the assignment was in effect.
- B. Finance calculates the commute valuation for individual employees according to IRS guidelines.
- C. In the case of employees for whom the lease valuation method is used:
 - 1. Finance sends a memo to the employee to verify the calculations and sign off on the personal use percentage.
 - 2. The employee returns the approved or corrected memo to Finance.
- D. Finance prepares W-2 forms and distributes them to employees in January.