

2021 Vehicle Policy and Income Inclusion Guide

► Employer policies regarding use of company vehicles

Three policies have been included that may be provided to clients as examples. Policies 1 and 2 are optional for an employer. Policy 3 is required in some form by all employers providing company-owned personal use vehicles. The policies should be reviewed to determine if there are conflicts with state or local laws.

► Employee representation regarding use of company vehicle

The IRS requires employers to provide certain information on their tax returns with respect to the vehicles provided to employees. This information is also used to calculate the amount of the taxable fringe benefit to be included in the employee's Form W-2 income. Employees are required to represent to their employer as to the details of the business/personal use of the company vehicle provided to the employee for their use.

► Worksheet to calculate income from personal use of company vehicle

The IRS requires the value of the personal use of employer-provided vehicles to be included in the compensation of the employee if the employee does not reimburse the employer. Forms are included for the employer to collect the necessary data from the employee and calculate the value of the personal use. **Note: Due to COVID-19, [IRS Notice 2021-7](#) provides for an alternate method of calculation for income inclusion in 2020 that may have impacts in 2021.**

► Worksheet to calculate inclusion amount for leases of luxury vehicles

The IRS requires lessees of luxury vehicles to calculate an inclusion amount to be included in their gross income. This inclusion amount must be considered by taxpayers who have leased a vehicle for a term of 30 days or more. By means of the inclusion amount, the law attempts to limit the taxpayer's lease payment deductions to the amount that would have been deductible under the limited depreciation rules had the taxpayer purchased the vehicle.

2021 Vehicle Policy and Income Inclusion Guide

Employer policies regarding use of company vehicles

1) Policy prohibiting all personal use of company vehicles

Management has adopted the following policy regarding personal use of company-owned vehicles:

- Vehicles owned or leased by this company are to be used solely for company business. There shall be no personal use of the vehicles (including commuting to and from work). Individuals driving company vehicles may have occasions where an incidental stop is necessary between business stops. Such use shall not be considered a violation of this policy.
 - The company requires that vehicles not in use shall be parked in designated areas on the company's premises. No personal items are to be stored in the vehicles. Company materials and supplies are to be secured in the trunk or in lock boxes, or within the company's offices.
 - Keys are to be returned to _____ upon the close of business each day.
-

2) Policy prohibiting all personal use of company vehicles except commuting

Management has adopted the following policy regarding personal use of company-owned vehicles:

- For business reasons, certain employees have been designated to drive a company-owned vehicle to and from their residence. This shall be the only authorized personal use of the vehicle. Individuals driving company vehicles may have occasions where an incidental stop is necessary between business stops. Such use shall not be considered a violation of this policy.
- The company requires that no personal items other than incidentals be stored in the vehicle. The vehicle is to be locked when not in use with work articles stored either in the lock box or trunk during times when the vehicle is not in use.
- The company will compute a daily value for the commuting which will be included in the employee's Form W-2, *Wage and Tax Statement*, at the end of the calendar year. Such amount will be the minimum allowed by federal income tax laws.

Note: IRS regulations require the company to maintain evidence which would enable the IRS to determine whether use of the vehicle is in accordance with a policy maintained by the company.

2021 Vehicle Policy and Income Inclusion Guide

Employer policies regarding use of company vehicles (continued)

3) Policy regarding cut-off date to calculate the value of personal use of company-owned vehicles

Management has adopted the following policy regarding computation of the taxable value of the personal and commuting use of company-owned vehicles:

- The personal and commuting use of company vehicles will be computed for the 12 months ending _____ (October 31, November 30 or December 31).
- Annually, the company requires you to provide a complete accounting of the personal use of the vehicle as of _____. The taxable value of the personal use will be computed using the least costly method allowable by tax law.
- This income will be considered paid as of _____ and federal, state and local income taxes (if appropriate) and Social Security/Medicare tax withholding will be deducted from your _____ paycheck.

Or

- The taxable value and related withholding tax will be reflected on your Form W-2. Please address your questions to _____.
- The company may elect to withhold only Social Security/Medicare taxes. If so, the paragraph should read as follows:

This income will be considered paid as of _____ and Social Security/Medicare withholding taxes will be deducted from your _____ paycheck.

2021 Vehicle Policy and Income Inclusion Guide

Employee representation regarding use of company vehicle

- The IRS generally requires that written records be maintained to document the business use of vehicles. Since the company policy requires employees to maintain the detailed records, please provide answers to the following questions. If you were provided more than one vehicle that was used during the year, you need to prepare a separate statement for each vehicle.

The completed form must be returned no later than ___/___/___ or 100% of the value of the use of the vehicle will be included in your Form W-2 income.

Description of vehicle _____

Reporting period from _____ to _____

Odometer reading: beginning _____ ending _____

► Employee representation

Yes No

1. Was the vehicle available for your personal use during off-duty hours?

2. Did you have another vehicle available for your personal use?

3. Are you an officer or 1% or more owner of the business?

4. How many commuting round trips did you make in this vehicle? _____

5. For the reporting period specified above, please provide the number of miles for each of the following categories:

Commuting miles _____

Other personal (non-commuting) miles _____

Total commuting and other personal miles _____

Total business-use miles _____

Total miles _____

6. Did the employer pay the cost of fuel consumed by this vehicle?

Employee signature

Date

2021 Vehicle Policy and Income Inclusion Guide

Worksheet to calculate income from personal use of company vehicle

- ▶ Employer's worksheet to calculate employee's taxable income resulting from employer-provided vehicle for calendar year 2021.

Employee _____

Description of vehicle _____

Date vehicle first made available to any employee _____

Date vehicle first made available to this employee _____

Select one method (note that there are usually limitations on Methods II and III).

Due to the suddenness and unexpected onset of the COVID-19 pandemic, the U.S. Treasury and the IRS provided relief from the consistency rules in Sec. 1.61-21(d)(7) and Sec. 1.61-21(e)(5). [Notice 2021-7](#) provides that if certain requirements are satisfied, employers and employees that are using the lease value rule to determine the value of an employee's personal use of an employer-provided vehicle can instead use the cents-per-mile rule to determine the value of an employee's personal use of an employer-provided vehicle beginning March 13, 2020. Employers that choose to switch from the lease value rule to the cents-per-mile rule during 2020 may revert back to the lease value rule for 2021, provided they meet the requirements of Regs. Sec. 1.61-21(d), other than the consistency rules in Regs. Sec. 1.61-21(d)(7).

Alternatively, employers that choose to switch to the cents-per-mile rule during 2020 may continue using the cents-per-mile rule for 2021, provided they meet the requirements of Regs. Sec. 1.61-21(e), other than the consistency rules in Regs. Sec. 1.61-21(e)(5).

Employees that use one of the special valuation rules for vehicles must use the same special valuation rule for vehicles that is used by their employer.

The consistency rules in Regs. Sec. 1.61-21(e)(5) and in Regs. Sec. 1.61-21(d)(7) will apply as if Jan. 1, 2021 was the first day the vehicle was used by the employee for personal use.

The special valuation rule used for 2021 must continue to be used by the employer and the employee for all subsequent years, except to the extent the employer uses the commuting valuation rule.

2021 Vehicle Policy and Income Inclusion Guide

Worksheet to calculate income from personal use of company vehicle *(continued)*

► Method I – Lease value rule (for vehicles available 30 days or more). For vehicles less than 30 days, see below.⁽¹⁾

Fair market value of the vehicle (to be redetermined at the beginning of the fifth year and every four years thereafter) \$ _____

Annual lease value, per the attached chart (shown on page eight) \$ _____

Multiplied by the number of days during the year that the vehicle was available x _____

Divide by the number of days in the tax year ÷ _____

Prorated annual lease value = _____

Multiplied by the personal use % (personal/total miles per employee statement) x _____ %

Personal annual lease value = _____

If fuel is provided by the employer, add the following:

personal miles _____ x _____⁽²⁾ = + _____

Personal use taxable income = \$ _____

⁽¹⁾Daily lease value – For autos available for at least one day, but less than 30 days, the prorated annual lease value is determined by multiplying the annual lease value by a fraction; the numerator is four times the number of days of the auto’s availability, and the denominator is 365. A 30-day period may be used even if the availability is less than 30 days if it produces a lower valuation.

⁽²⁾Generally, where fuel is purchased in kind, the fair market value of the fuel should be used in computing this additional income inclusion amount. Alternatively, a rate of \$0.055 per personal use mile can be used if auto usage is within the U.S., Canada and Mexico. If employers with a fleet of 20 or more vehicles reimburse or allow employees to charge personal fuel costs, the fleet-average cents per mile rate may be used. If the fleet employer determines that the actual cost or fleet average methods are unreasonable administrative burdens, the \$0.055 per personal mile rate may be used. If the cost of fuel is reimbursed by or charged to an employer, that cost is the fair market value of the fuel, provided that the purchase was made in an arm’s-length transaction.

2021 Vehicle Policy and Income Inclusion Guide

Worksheet to calculate income from personal use of company vehicle *(continued)*

► Method II – Cents-per-mile rule

Generally, to qualify to use the cents-per-mile rule, the vehicle must: (1) be expected to be regularly used in the employer’s business throughout the calendar year or be driven at least 10,000 miles per year and (2) the date it is first made available to any employee for personal use, the standard automobile cost may not exceed the value of \$51,100 for passenger automobiles (including trucks and vans) placed in service on or after Jan. 1, 2021. Once this method is adopted for a vehicle, it must be continued until the vehicle no longer qualifies.

Enter personal miles _____ x \$0.56 = \$ _____

If fuel is NOT provided by the employer, enter personal miles _____ x \$0.055 = (_____)

Personal use taxable income \$ _____

► Method III – Commuting rule

This method may only be used for vehicles covered by a written policy that allows commuting but no other personal use. Do not use this method if the employee is a “control employee” (i.e., he or she is a 1% or more owner, a director, an officer with compensation of \$115,000 or more or an individual with compensation equaling or exceeding \$235,000).

Number of commuting round trips made _____

Value per round trip x _____ \$3.00

Personal use taxable income = \$ _____

2021 Vehicle Policy and Income Inclusion Guide

Worksheet to calculate income from personal use of company vehicle (continued)

► Annual lease value table

Automobile fair market value	Annual lease value
\$ 0–999	\$ 600
1,000–1,999	850
2,000–2,999	1,100
3,000–3,999	1,350
4,000–4,999	1,600
5,000–5,999	1,850
6,000–6,999	2,100
7,000–7,999	2,350
8,000–8,999	2,600
9,000–9,999	2,850
10,000–10,999	3,100
11,000–11,999	3,350
12,000–12,999	3,600
13,000–13,999	3,850
14,000–14,999	4,100
15,000–15,999	4,350
16,000–16,999	4,600
17,000–17,999	4,850
18,000–18,999	5,100
19,000–19,999	5,350
20,000–20,999	5,600
21,000–21,999	5,850

Automobile fair market value	Annual lease value
\$22,000–22,999	\$ 6,100
23,000–23,999	6,350
24,000–24,999	6,600
25,000–25,999	6,850
26,000–27,999	7,250
28,000–29,999	7,750
30,000–31,999	8,250
32,000–33,999	8,750
34,000–35,999	9,250
36,000–37,999	9,750
38,000–39,999	10,250
40,000–41,999	10,750
42,000–43,999	11,250
44,000–45,999	11,750
46,000–47,999	12,250
48,000–49,999	12,750
50,000–51,999	13,250
52,000–53,999	13,750
54,000–55,999	14,250
56,000–57,999	14,750
58,000–59,999	15,250

For vehicles having a fair market value in excess of \$59,999, the annual lease value is equal to:
 (.25 x automobile fair market value) + \$500.

2021 Vehicle Policy and Income Inclusion Guide

Worksheet to calculate inclusion amount for leases of luxury vehicles

Taxpayers that lease a passenger automobile for use in their business can deduct the part of the lease payment that represents the business use. However, Sec. 280F requires the deduction to be reduced by an amount that is substantially equivalent to the depreciation deductions limits imposed on owners of passenger automobiles to attempt to balance out the tax benefits of leasing a luxury car as opposed to purchasing it. Thus, lessees must calculate an “inclusion amount” each year to achieve equal treatment as imposed by depreciation deduction limits.

Description of vehicle _____

Date of lease _____

Lease term _____

Fair market value of the vehicle at lease inception _____

Tables one and two of [Rev. Proc. 2020-31](#) provide limitations on depreciation deductions for certain automobiles placed in service during calendar year 2021. Table three provides income inclusion amounts for passenger automobiles first leased in 2021. For vehicles with lease terms beginning prior to 2021, see the applicable table in the revenue procedure for the first year of vehicle lease.

Fair market value (FMV) of passenger automobile: \$ _____⁽³⁾

		Tax year during lease				
		1 st	2 nd	3 rd	4 th	5 th
Multiply the FMV listed above by the number of days during the year that the vehicle was leased	x					
Divide by the number of days in the tax year	÷					
Prorated dollar amount	= \$					
Business-use % (business/total miles) ⁽⁴⁾	x					
Prorated inclusion amount	= \$					

⁽³⁾ The dollar amount for the preceding year is used for the last tax year of the lease. For vehicles placed in service in 2021, if the FMV of the vehicle did not exceed \$50,000, then no inclusion is necessary.

⁽⁴⁾ Use 100% if all expenses are deducted by the employer and the personal-use value is added to the employee's income.

This copyrighted resource is provided exclusively to AICPA Tax Section members and should not be shared, reproduced or used by anyone who is not a member of the AICPA Tax Section without explicit consent from the AICPA Tax Section. See our [terms and conditions](#). For information about content licensing, please email copyright-permissions@aicpa-cima.com.