



## PERSONAL USE OF EMPLOYER VEHICLE

This notice is to serve as a reminder that personal use of employer vehicles must be reported with the quarterly and year-end payroll reports.

The computation of compensation is made for each employee for each car, truck, or van they have used for personal purposes throughout the year. The law requires withholding of FICA tax on the amount of additional compensation. Federal and state income tax withholding is optional. The compensation, as well as the required FICA tax and optional withholding, must be reported on the quarterly Forms 941, and related W-2s. On Form W-2, the additional compensation must be included in Boxes 1, 3, and 5. The total fringe benefit should also be reported to the employee in Box 14 of Form W-2.

***It is extremely important that these computations be made prior to the last payroll cycle of the year.*** Additional payroll tax withholding from cash compensation may be used to pay the required payroll taxes on this non-cash compensation.

We have a worksheet located at:

<https://www.fzacpa.com/vehicle-compensation/>

which can be used to compute this additional compensation. Complete the worksheet, step by step, to compute compensation to the employee.

If you have any questions or need assistance, **please let us know before you file your fourth quarter and year-end payroll reports.**

### SUBSTANTIATION

The Internal Revenue Service requires that you be able to substantiate the business use of these vehicles. Basically, the substantiation rules require that tax deductions and credits be substantiated by either adequate records or sufficient evidence, either oral or written, corroborating the employee's own statement.

Substantiation is required on the following expenses related to the business use of an automobile.

- a. amount of expense,
- b. time and place of the business use; and,
- c. business purpose.

To substantiate a claimed deduction for expenses related to the business use of an automobile, the Internal Revenue Service will consider the following to be adequate or sufficient evidence:

- a. account books, diaries, and logs,
- b. documentary evidence (such as paid bills and receipts),
- c. trip sheets,
- d. expense reports; and,
- e. written statements of witnesses.