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MEMORANDUM NO. 2019-15

November 25, 2019

TO THE HEADS OF ALL STATE AGENCIES

Attention: Chief Administrative and Fiscal Officers, Business Managers, and Payroll and Human Resources Officers

Subject: Calculation of the Taxable Benefit of the Non-Business Use of State-Provided Vehicles, Calendar Year 2019

I. **PURPOSE**

When a state employee commutes in or uses a state vehicle for personal business, certain tax consequences result. The Internal Revenue Service views the personal use as a taxable benefit to the employee and has established guidelines to determine how much the dollar value of that benefit would be.

This memorandum supersedes Memorandum 2018-27 and advises agencies of a change in the rate used in the annual lease value method and cents-per-mile method and advises agencies and employees of a change in the definition of control employee (yearly compensation).

II. **AUTHORITY**

Effective January 1, 1986, Federal Public Law 99-44 mandates that an employee's personal use of an employer-owned or leased vehicle must be reported to the Internal Revenue Service (IRS) as taxable income. "Personal use" is defined as any non-business use, including commuting from an employee's home to his or her worksite. The term "vehicle" means "any motorized wheeled vehicle manufactured primarily for use on public streets, roads and highways" and generally includes automobiles. Except for certain exceptions as set forth later in this memorandum, all State of Connecticut employees will be subject to taxation on any state vehicle use that is not documented as business use. State agencies will be responsible for implementing the applicable reporting requirements.

The following IRS requirements and other guidelines are set forth to assist agencies in determining those employees whose use of state vehicles is deemed taxable and in reporting the dollar value, by employee, of such benefits.

III. STATE'S VEHICLE USE POLICY

The policy of the State of Connecticut generally prohibits personal use of state-owned/leased vehicles except for home-to-worksite travel as required by the employer. Under the State of Connecticut's written policy, no employee may use the vehicle for personal purposes other than de minimis use (e.g., a stop for lunch between two business appointments or deliveries). Refer to the Department of Administrative Services General Letter No. 115 revised April 2012 as applicable.

IV. CONTROL EMPLOYEE

A control employee is defined as:

- a. an elected official; **or**
- b. an employee whose annual compensation will equal or exceed **\$156,000** in 2019.

Control employees can only choose the fleet average value method, the annual lease method or the cents per mile method for the calculation of the taxable benefit.

All other employees, referred to as non-control employees in this memorandum, must use the commuting value method.

V. VALUATION METHODS

The following methods are to be used in valuing the taxable benefit:

- A. **Commuting Value Method** - for use by a non-control employee only. Personal commutation to work is valued at a daily commuting rate of \$1.50 for each one-way trip (or \$3.00 round trip).
- B. **Fleet Average Value Method** –A monthly rate of \$172.50 per 30-day month plus 5.5 cents per mile for gasoline is assessed; **or a per diem** rate of \$23.00.

NOTE: If the vehicle is used more than seven days in a month, it is advantageous to use the monthly rate rather than the per diem rate.

- C. **Annual Lease Value Method** - This method must be used for any vehicle that exceeds the \$50,400 value (per IRS Reg. 1.61-21(d)(5)(v)(D)). Agencies will be contacted if a fleet vehicle exceeds the stated value. All other agencies who purchase vehicles must use this method in accordance with the IRS Publication 15-B. The vehicles' fair market value (FMV) will determine the monthly rate, plus 5.5 cents per mile for gasoline.

NOTE: Once computed, the Annual Lease Value remains in effect until 12/31 of the 4th full calendar year after the rule is first applied.

- D. Vehicle Cents-Per-Mile** - Personal miles are valued at 58 cents per mile effective January 1, 2019. If the employer does not supply gasoline, the rate is reduced by 5.5 cents to 52.5 cents per mile. Cents-per-mile valuation rule cannot be used for cars including vans and trucks with FMV exceeding \$50,400 (per IRS Reg. 1.61-21(e)(1)(iii)). Note: Amount is revised annually.

NOTE: Special rules may apply when using each of these methods. Once one of the valuation methods is elected, the employee must use it for all subsequent years unless the qualification rules are not met.

VI. CALCULATION OF THE TAXABLE BENEFIT

To calculate the value of his or her commuting or personal miles an employee would:

B. Perform the Calculation

Example 1: Commuting Value Method (used by all non-control employees)

The employee commuted round trips to work for 60 days during the reporting quarter. The rate of \$3.00/day is multiplied by 60 days = **\$180.00**.

Example 2: Control Employee Using Fleet Average Value or Cents-Per-Mile

The employee has been assigned a state vehicle for the **first time**. She commutes 20 miles to work round trip for 60 days in the quarterly reporting period. She may choose one method of valuing the use of the vehicle. A comparison of the methods follows:

▪ **Fleet Average Value**

\$172.50/month for 3 months = \$517.50

20 miles/day at 5.5 cents/mile
multiplied by 60 days = \$ 66.00

TOTAL QUARTERLY AMOUNT = \$583.50

▪ **Cents-Per-Mile**

20 miles/day at 58 cents/mile by 60 days

TOTAL QUARTERLY AMOUNT = \$696.00

In this example the lease value method is the less costly. However, once a method is selected, the employee must continue with that method despite any changes in his or her circumstances.

Example 3: Control Employee Using Annual Lease Value

The control employee has been assigned a vehicle for the **first time**. The vehicle was purchased by his agency and has a FMV of \$50,500. He commutes 20 miles to work round trip for 60 days in the quarterly reporting period.

1. Determine the FMV of vehicle when made available;
2. Use table in IRS Reg. 1.61-21(d)(2)(iii) or Pub. 15-B to compute Annual Lease Value www.irs.gov/pub/irs-pdf/p15b.pdf ;
3. Value the fuel (if provided) at 5.5 cents per mile;
4. Determine the monthly rate (ALV/365 (days per yr) x 30 (days per month)).

- **Lease Value**

\$1,089.04/month for 3 months	=	\$3,267.12
20 miles/day at 5.5 cents/mile by 60 days	=	\$ 66.00

TOTAL QUARTERLY AMOUNT	=	\$3,333.12
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The cents-per-mile valuation rule cannot be used for vehicles with a FMV exceeding the rate established per IRS Reg. 1.61-21(e)(1)(iii).

Note: When performing the calculation for any method for any vehicle that is not part of the DAS on-line reporting program, net out any amount that has been paid to the state as reimbursement for personal use. If the amount paid the state exceeds the taxable benefit for the tax year, the benefit equals zero. Credit amounts cannot be carried forward.

VII. EXCEPTIONS (Applicable to Eligible Control and Non-Control Employees)

The following categories of vehicle use are not presently subject to taxation:

1. Qualified Non-Personal Use Vehicles

The term “qualified non-personal use vehicle” is applied to any vehicle that, because of its nature, is not likely to be used more than a very limited (i.e., de minimis) amount for personal purposes.

Refer to Attachment “A” for a listing of “qualified non-personal use vehicles” that fall within this exception with explanatory information concerning the exception requirements for vans and trucks and the narrowly-defined requirements for “law enforcement officer”.

2. **Overnight Parking (“Garaging”) of Vehicle at Approved State-Owned or Leased Facility**

Taxation will not apply if an employee uses an approved state-owned or leased facility for the overnight “garaging” of an assigned state vehicle even though such facility was some distance from the employee’s worksite and possibly close to his or her home. However, this exception is qualified by three stipulations: (a) a vehicle usage and parking location must make “good business sense” to the employer; (b) overnight parking location must be approved by the employer; and (c) if the driver transports one or more passengers from their home(s) to the worksite, such passengers are subject to taxation on the derived benefits.

3. **De Minimis Use of Vehicle**

According to Section 1.132-6 of the IRS Regulations, the term “de minimis fringe” means any property or service, the value of which is (after taking into account the frequency with which similar fringes are provided by the employer to the employer’s employees) so small as to make accounting for it unreasonable or administratively impracticable.

The regulations give as an example of fringe benefit that is not excludable from gross income: the commuting use of an employer-provided automobile more than one day a month. The regulations also say that “the fact that the commuting use of an employer-provided vehicle more than one day a month is an example of a benefit not excludable as a de minimis fringe does not mean that the commuting use of a vehicle up to 12 times per year is excludable from gross income as de minimis fringe”.

VIII. REPORTING REQUIREMENTS

Vehicle Usage Fringe Benefit Computation Records

1. The Vehicle Usage Fringe Benefit Computation Records are:

Computation Record for Lease Value Method (Form CO-961);
Computation Record for Cents-Per-Mile Method (Form CO-960); and
Computation Record for Special Commuting Rate (Form CO-959).
2. From the information on the Monthly Usage Report (Form CCP-40), the agency will then post data as needed to the Employee’s Computation Record.
3. Follow instructions on the Computation Record to calculate the monthly value of the fringe benefit.
4. Submit the required paperwork to his or her business office for inclusion in a payroll transaction.
5. Retain the Computation Record and the documenting CCP-40 for the later of (a) three years or (b) until examination by the Auditors of Public Accounts.

The Department of Administrative Services (DAS) has a program where state vehicle usage is reported on-line. Questions regarding this procedure should be directed to DAS, Fleet Operations.

IX. AGENCY RESPONSIBILITY

Agencies are to notify concerned employees of the preceding requirements and the definition of control employee, and the rate used in the cents-per-mile method.

Agencies must continue to maintain the records necessary to properly determine and report on the dollar value of the vehicle use benefit for the period November 1, 2018 through October 31, 2019.

X. QUESTIONS

Questions may be directed as follows:

Computation and Benefits: Central Accounts Payable, Policy and Security Unit,
860-702-3440;

Payroll Procedures: Active and Retired Payroll Services Division, 860-702-3447;

On-line Home to Office Usage: DAS, Fleet Operations, 860-713-5160.

**KEVIN LEMBO
STATE COMPTROLLER**

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Attachment

<http://www.osc.ct.gov>

ATTACHMENT A

Qualified Non-Personal Use Vehicles

A qualified non-personal use vehicle is any vehicle an employee is not likely to use more than minimally for personal purposes because of its design.

Examples of qualified non-personal use vehicles are:

1. clearly marked police, fire or public safety officer vehicles, but personal use other than commuting must be prohibited by the employer;
2. unmarked vehicles used by law enforcement officers (explained later) if the use is officially authorized, but the personal use must be necessary to help enforce the law;
3. an ambulance or hearse used for its specific purpose;
4. any vehicle designed to carry cargo with a loaded gross vehicle weight over 14,000 pounds;
5. delivery trucks with seating for the driver only, or driver plus a folding jump seat;
6. a passenger bus with a capacity of at least 20 passengers used for its specific purpose;
7. school buses; and
8. tractors and other special purpose farm vehicles.

Vans and Pickup Trucks

A van or a pickup truck is not a qualified non-personal use vehicle unless it has been specially modified so it is not likely to be used more than minimally for personal purposes. The Internal Revenue Service provides the following guidelines a van or pickup truck can meet to be a qualified non-personal use vehicle.

A van with a loaded gross vehicle weight of 14,000 pounds or less qualifies if it is clearly marked with permanently affixed decals, special painting or other advertising associated with the employer's trade, business or function. The van must have a seat for the driver only or the driver and one other person, and either:

1. Permanent shelving that fills most of the cargo area; or
2. The cargo area is open and the van always carries merchandise, material or equipment used in the employer's trade, business or function.

A pickup truck with a loaded gross vehicle weight of 14,000 pounds or less qualifies if it is clearly marked with permanently affixed decals, special painting or other advertising associated with the employer's trade, business or function. The pickup truck must be either:

1. Equipped with at least one of the following:
 - a. Hydraulic lift gate;
 - b. Permanent tanks or drums;
 - c. Permanent side boards or panels that materially raise the level of the sides of the truck bed; or
 - d. Other heavy equipment (such as an electric generator, welder, boom or crane used to tow vehicles); **or**
2. Used primarily to transport a particular type of load (other than over the public highways) in a construction, manufacturing, processing, farming, mining, drilling, timbering or other similar operation for which it was specially designed or significantly modified.

Public Safety Officer

A public safety officer is an individual serving a public agency in an official capacity, with or without compensation, as a law enforcement officer, a fire fighter, a chaplain, or as a member of a rescue squad or ambulance crew.

Law Enforcement Officer

In order for an unmarked police vehicle to be classified as a qualified non-personal use vehicle, it must be used by a law enforcement officer.

A law enforcement officer is an individual who is a full-time employee of a governmental unit that is responsible for the prevention or investigation of crime. In addition, the employee must be authorized by law to carry firearms, execute search warrants and make arrests. The employee must regularly carry firearms except when working undercover.

An arson investigator may be considered a law enforcement officer if the investigator meets the requirements.