

# STRATEGIC

LAW GROUP PC

Strategic Integrated Planning

## Supplying Employees with a Company Car

Buying or leasing an auto for the use of your employees ought to be an uncomplicated transaction from the tax viewpoint, but it's not. The plain fact is that the company auto creates more tax complications than almost any other type of business asset. That's why it's imperative for you to formulate an overall strategy with our experts, one that yields the maximum in tax savings, while keeping your paperwork and administrative burden at a minimum. This strategy will take into account the special rules that apply to your deductions for the company auto, the tax consequences of an employee's personal use of a company auto, and the payroll implications of such personal usage.

As a general rule, your company can claim depreciation deductions for the full cost of a purchased company auto, usually based on a five-year "life" but also limited each year by so-called "luxury auto caps." Alternatively, if your company leases instead of buys, it can fully deduct its lease cost (again, up to certain "luxury vehicle limits"). In either case, the value of the employee's personal use of the car is treated as fringe benefit compensation income. For 2009, your company was allowed an additional accelerated write off on the purchase of a new vehicle. This was called "bonus depreciation." This tax benefit expired at the end of 2009. It is unclear if Congress will extend bonus depreciation for 2010. Our office will keep you posted of developments.

The employee's personal use of the company auto creates a separate category of tax complications. That's because the value of the employee's personal mileage must be treated as noncash fringe benefit income that is taxable to the employee, but not deductible by the company (its deductions consist of depreciation or lease deductions and operating costs). There are four separate ways to value employee personal mileage, and each of them carries its own rules and conditions. Three of the four methods require detailed record keeping of business and personal usage.

The fringe benefit value of personal use of the company auto generally is subject to federal income tax withholding and FICA tax. However, your company can elect not to withhold federal income tax if it properly notifies affected employees of this choice. Furthermore, the value of an employer-provided vehicle may be excludable as a working condition fringe to the extent the employee would be allowed a deduction for depreciation or as a trade or business expense if the employee paid for the use of the vehicle. In addition, a company can choose to treat the company car as having been used entirely for personal travel. This option will greatly simplify the company's record keeping burden, but usually will create extra taxable income for your employees.

Although the rules for company autos are complex, we can show you how to minimize their impact on your bottom line, on your payroll department, and on your employees.

Please do not hesitate to call at your convenience for an appointment. 1-866-657-0246 or [jwaage@strategiclawgroup.com](mailto:jwaage@strategiclawgroup.com)