# Personal Use of a Company Vehicle

# Compliance, Finances and Employee Privacy

# **Executive Summary**

The majority of corporations with company cars allow their employees to enjoy the personal use of those vehicles. This personal use is a taxable fringe benefit in the eyes of the IRS and carries with it specific reporting requirements for the employer and employee. As the IRS looks for additional revenue opportunities, employers should expect personal use audits to continue to increase.

Under reported personal use presents a significant savings opportunity for fleets. When personal use reporting is accurate, personal miles increase allowing for a reduction in fleet expense. When exploring personal use reporting options, it's very important from a legal perspective to take off duty employee privacy into consideration.

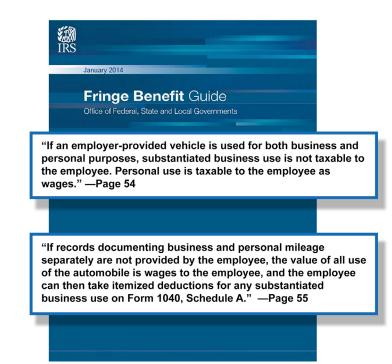
In this white paper, On-Board Communications will provide ways to help corporations improve their personal use reporting. In detail, this white paper will:

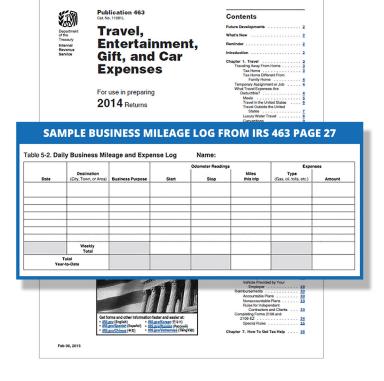
- Provide a summary of the IRS reporting requirements for personal use.
- Describe the financial savings that fleets realize as the percentage of personal use mileage increases.
- Discuss off duty employee privacy and the potential litigation risks involved with traditional GPS monitoring.
- Recommend a solution to automate personal use reporting, reduce fleet costs and protect off duty employee privacy.

## **IRS Reporting Requirements**

The Internal Revenue Service (IRS) requires that the personal use of a company provided vehicle is reported as a taxable fringe benefit. This benefit must be reported as income on the employees W-2 statements.

Companies must rely on drivers to report their personal miles. Many drivers report their personal miles just once a month. A high percentage of these drivers do not keep the personal and business mileage records that the IRS requires. As a result, the information that is reported to the IRS is far from accurate.





Under most circumstances, the IRS requires that all business use of a company vehicle is documented. Business use must be logged with the mileage for each business trip. If these records are not available at the time of an IRS audit, 100 % of the expenses related to the vehicle shifts to the employee.

If the IRS does not find the required records during an audit, both the employee and employer could be subject to fines, penalties and back taxes.

## Personal Use and its Impact on Fleet Expense

Companies often offer personal use as a recruiting and retention tool. Companies must then decide if employees will be asked to contribute for their share of the vehicle expense or if the cost of personal use will be absorbed by the employer.

Most companies that permit personal use charge their employees for their portion of the vehicle's expense. These charges typically are collected using a monthly payroll deduction. At year end, a true up should be performed to reconcile the payroll deduction with the employee's share of vehicle expenses. If the employee's fringe benefit is greater than the deduction, companies impute the balance

in the employee's W-2.

In a recent Automotive Fleet annual survey, thousands of fleet managers reported average personal use at 18 percent. Because it is to the employee's advantage to not report all personal miles, it is widely agreed that actual personal use is under reported. Another reason for under reported personal use is a general misunderstanding or disagreement by employees regarding commute miles. Many employees do not take the time to record commute mileage or agree that the first and last trips to the employee's home are generally classified by the IRS as personal mileage.

189/0
Average Percentage of Personal Use Reported

Personal use chargebacks present an opportunity for fleets to reduce expense. When personal use is reported accurately, the percentage of personal use and the charge to the employee will increase. This in turn will decrease fleet expense.

## **Off Duty Employee Privacy**

Caution should be exercised to protect your employees off duty privacy when implementing a method to improve the accuracy of personal use reporting. Traditional GPS systems provide a means to monitor mileage; however, they could lead to a lawsuit for an invasion of privacy. Recently another <u>employee initiated lawsuit was filed</u> alleging the use of a GPS system invaded off duty privacy.



When implementing a personal use program, companies should be cautious that they do not gain access to information that reveals the activities of off duty employees. Such examples include medical appointments, political, professional, religious, and sexual associations. Access to such information could be a violation of the employees Fourth Amendment Rights.

More information is found in this <u>article relating to the dos</u> <u>and don'ts of GPS monitoring</u> written by Fisher & Phillips, a law firm specializing in labor and employment law.

# The Path to Accurate Personal Use Reporting

Personal use administration is difficult for many companies but it does not have to be. FleetTraks + wraps total vehicle mileage, reduced fleet expense and employee privacy into an affordable, simple to use program.

# FleetTraks + captures every mile. Drivers then identify travel as personal or business.



FleetTraks + begins with the installation of an OBDII device. This ensures every vehicle mile is recorded. The power demands of constant GPS monitoring are satisfied by the vehicle's electrical system.





A user friendly smart phone application enables employees to change the FleetTraks+ mileage reporting mode from business to personal and vice versa. Because the GPS signal is received by the vehicle's OBDII device, employees do not have to worry about the FleetTraks+ app draining their cell phone batteries.

Business and personal miles are then reported separately, resulting in the protection of off duty employee privacy.



A full complement of reports provides the foundation for IRS compliance. Employers can easily verify that personal mileage was logged accurately by spot checking the times and locations that the mileage reporting mode was changed. Commute miles from homes or personal miles in the evening or weekends that are recorded as business miles are quickly identified.



The easy to use smart phone application makes changing the mileage mode simple for drivers and eliminates the need for keeping manual records. Employees enjoy knowing that their personal activities are not being monitored when they are off duty. Workers are able to validate their privacy as they have access to view their individual data.

Depending on the type of your mobile workforce, you may also benefit from these additional tools contained in FleetTraks+.

### **Productivity and Efficiency Gains**

FleetTraks + includes a full suite of fleet management tools. For some drivers, you can expect an increase in productivity.

### **Reduced Risk**

Driver behavior exceptions such as hard braking, speed and other infractions are reported in real time and in summary reports.

#### **Idle Time Reductions**

Multiple reports identify drivers who idle excessively. Many customers recover the entire cost of their fleet management solution by managing idle time alone.

### **Saves Fleet Managers Time**

The task of compiling personal use information is made easy because the data is available for download on demand.

### **Fewer Vehicle Miles**

FleetTraks + causes an increased level of driver awareness which results in better route decisions.

### **Improvements in Customer Service**

Real time GPS data populates web based maps for instant dispatch decisions.

Take control of your personal use program. Call today.



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