




NCSFA 2008 Conference  
Long Beach, CA  
September 29, 2008

# Take-home Vehicle and POV Reimbursement Policies

*Presented by:  
Barb Bonansinga, State of Illinois CMS and  
Janis Christensen, CAFM, Mercury Associates, Inc.*

**CMS** Central Management Services  
IOC10339-09 



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Rod R. Blagojevich  
Governor, State of Illinois

# Overview

- What are taxable benefits?
- What is personal use?
- What are take-home vehicles?
  - Cost impact of THVs
  - What vehicles are exempt?
  - Tax valuation rules
  - Recordkeeping
  - Success stories
  - NCSFA survey results

# Overview

- POVs
- NCSFA survey results
- Cost impact of POVs
- Non-taxable plans
- Success stories
- Data requirements
- Factors that effect reimbursement
- Break-even analysis
- References and more information



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# Taxable Benefits



- *“Non-cash fringe benefits”* received from an employer
  - Transportation (commuting)
  - POV reimbursement in excess of IRS accountable plans
  - POV reimbursement for non-accountable plans

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## What is Personal Use?

- Vehicle use that is not “*ordinary and necessary*” for employer’s trade or profession
- Use has no legitimate business purpose

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# Employer-provided Vehicles

State or University Owned /  
Leased Vehicles



# THV Survey Results

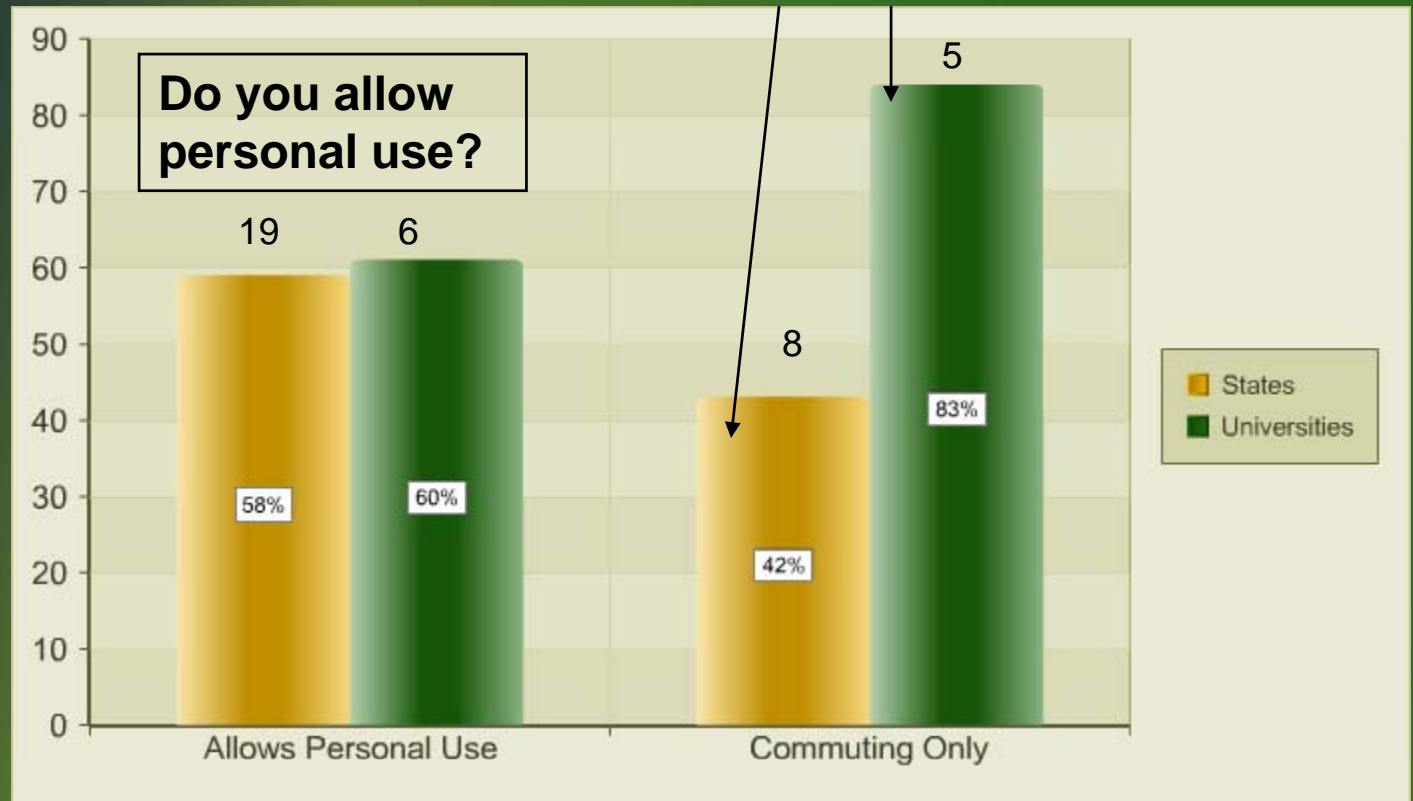
Survey of NCSFA Members in  
September 2008

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33 responses from 25 states  
10 responses from universities

# NCSFA Survey Responses

If yes, is it restricted to commuting only?



33 responses from states

10 responses from universities



14 states and 4 universities do not allow personal use.

4 states do not restrict personal use to commuting.; 7 states and 1 university replied "Do not know" or non-responses

# About THVs

- Vehicle is garaged at employee's residence
- Drivers of qualified vehicles are exempt from paying for commuting to/from work
- Non-qualified commuting and all other personal use must be taxed to employee



# THVs

- Cost impact for State of Illinois
  - 2,000 take-home vehicles
  - 1.3 million annual commuting miles
  - \$760,500 per year





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# Exclusions

- Minimal use (*“de minimis”*)
  - *“Working condition”* benefits
    - *“Qualified non-personal use vehicles”* are exempt
      - Any vehicle by reason of its nature not likely to be used for more than minimal personal use because of its design

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# Exclusions

If exempt, employer's vehicles are excluded from recordkeeping, substantiation and taxable benefits

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## Police and Fire

- Clearly marked police and fire vehicles always on call are exempt
  - Government license plates do not satisfy requirement
- Unmarked vehicles used by full-time law enforcement officers if use is officially authorized for prevention or investigation of a crime

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## Utility Repair Truck

- Specialized utility repair truck designed to carry tools and equipment with permanent interior construction to restore or maintain power services (i.e., gas, water, sewer) in emergencies
  - Vans and pickups do not qualify under utility repair truck exclusion

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## Other Exclusions

- Vehicles designed to carry cargo > 14,000 lbs. GVWR
- Construction or specialty work vehicles (i.e., bucket trucks, dump trucks, cement mixers, forklifts, refuse trucks)
- Delivery vehicles with only driver seat or driver plus folding jump seat

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## Other Exclusions

- Tractors and other special-purpose farm vehicles
- Ambulance or hearse used for its specific purpose
- Passenger bus with 20-passenger capacity used for its specific purpose
- School bus



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# Pickups < 14,000 Lbs. GVWR

- Clearly permanently marked pickups specifically modified so not likely operated other than minimal use AND equipped with at least ONE of the following:
  - Hydraulic lift gate
  - Permanent tanks or drums
  - Permanent side boards or panels that materially raise the level of the sides of the truck bed
  - Other heavy equipment (e.g., electric generator, welder, boom, crane)

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Pickups < 14,000  
Lbs. GVWR

- Pickup primarily operated off-road in construction, manufacturing, processing, farming, mining, drilling, timbering or other similar operation for which it was specifically designed or significantly modified

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Vans < 14,000  
Lbs. GVWR

- Clearly permanently marked vans specially modified so not likely operated other than minimal use AND equipped with a seat for the driver only (or one other person) AND EITHER of the following:
  - Permanent shelving that fills most of the cargo area
  - Open cargo area and the van carries merchandise, material or equipment used in the employer's trade, business or function

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# Tax Rules

- Take-home vehicles / personal use
  - General Valuation Rule
  - Cents-per-Mile Rule
  - Commuting Rule
  - Lease Value Rule

IRS Publication 15-B Employer's Tax Guide to Fringe Benefits

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## Commuting Rule

- To/from work/home \$1.50 each way per employee if ALL of the following requirements are met:
  1. Vehicle provided for bona fide compensatory business reason required by the employer
    - Employer requires 24-hour on-call employee to respond to emergencies in vehicle outfitted with certain equipment

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# Commuting Rule

2. Written policy prohibits all use that is not for employer's trade or business (other than qualified commuting or minimal use)
3. Employee does not use the vehicle for personal purposes (other than commuting and minimal use)

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# Commuting Rule



4. Employee operating an automobile (car, pickup or van) is not a “*control employee*” which for government employers is EITHER of the following:
- Compensation exceeds Federal Government Executive Level V ([opm.gov/oca/payrates/index.asp](http://opm.gov/oca/payrates/index.asp))
  - Elected official

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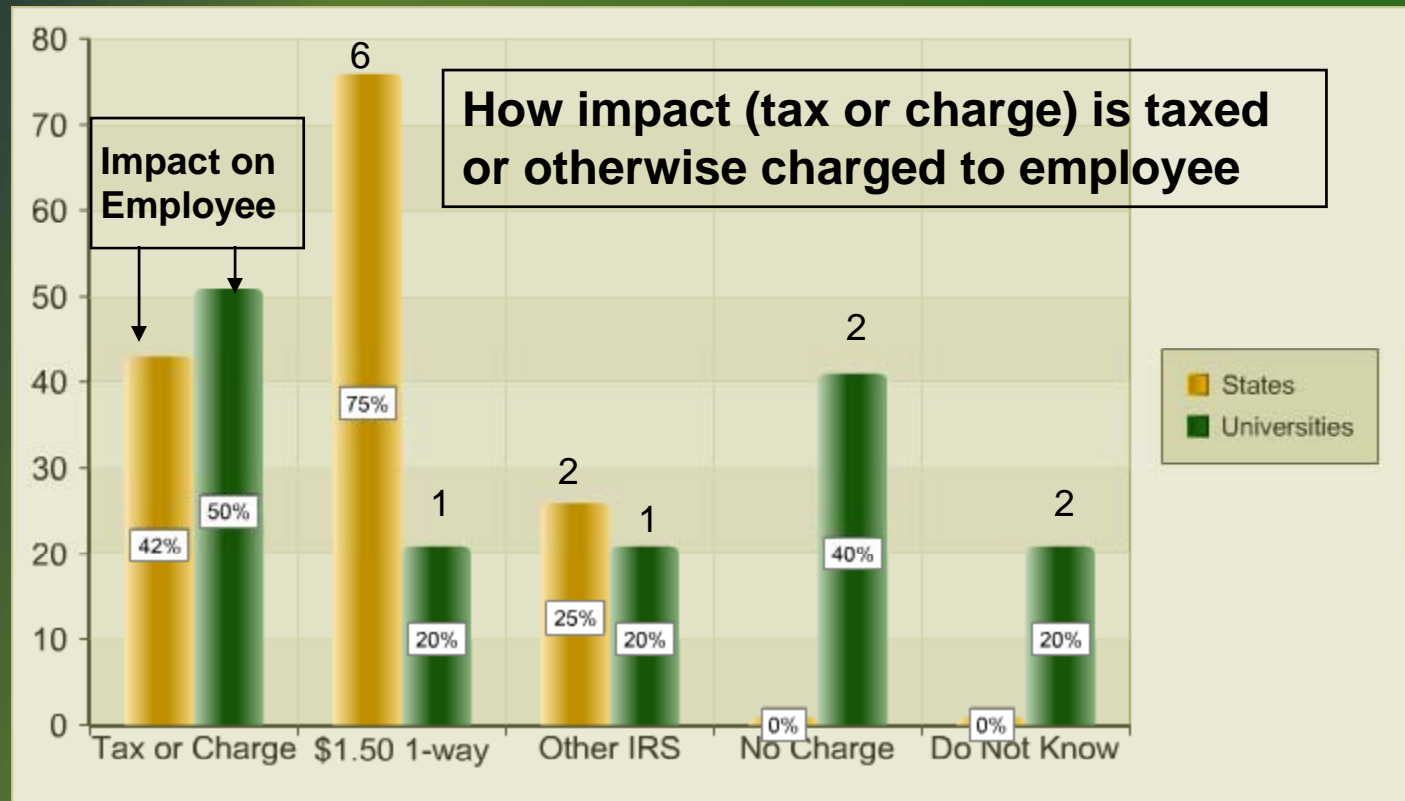


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# NCSFA Survey Responses

## Charging Employee for THV Commuting



8 states allow commuting

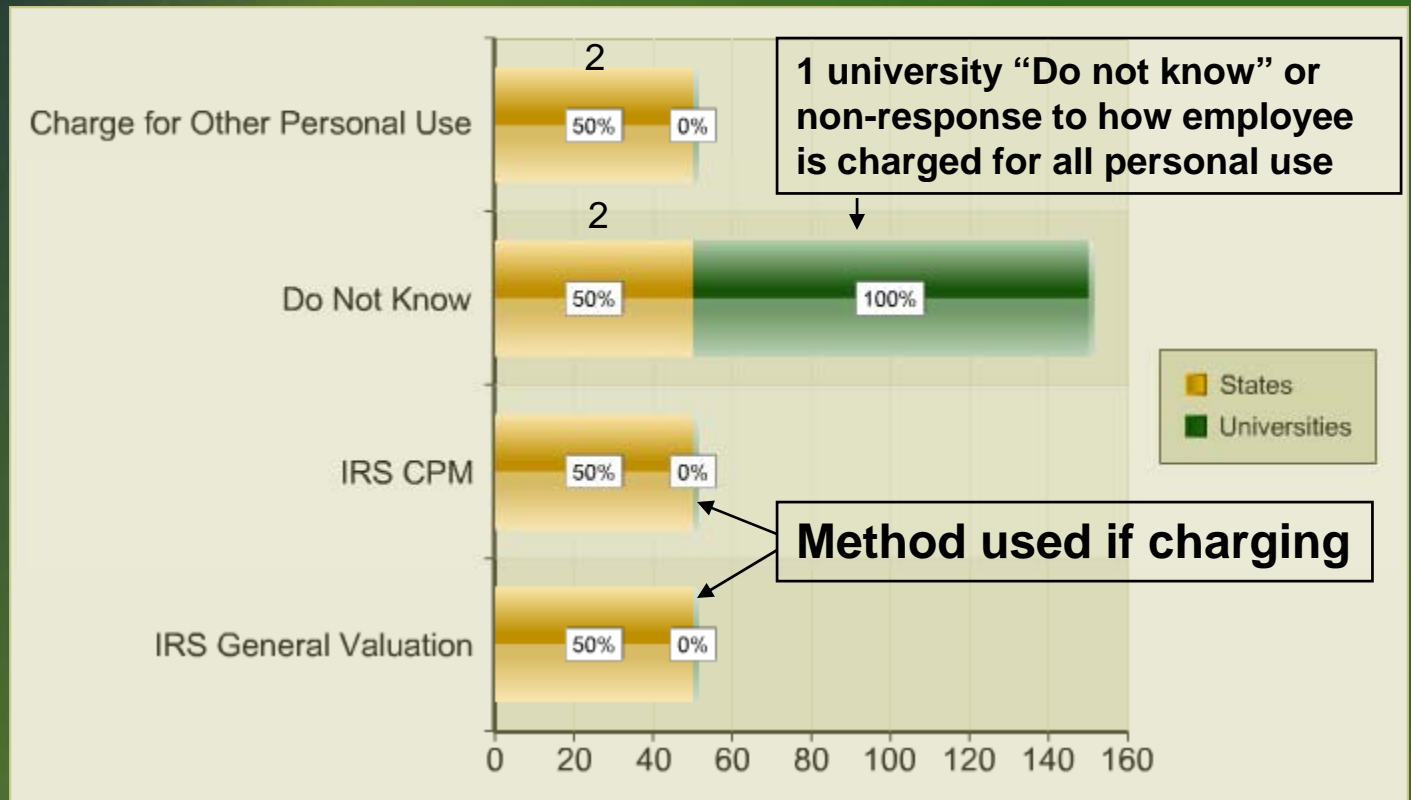
5 universities allow commuting

“Do not know” includes non-responses



# NCSFA Survey Responses

Allows "all" personal use for THVs



4-states allow "all" personal use

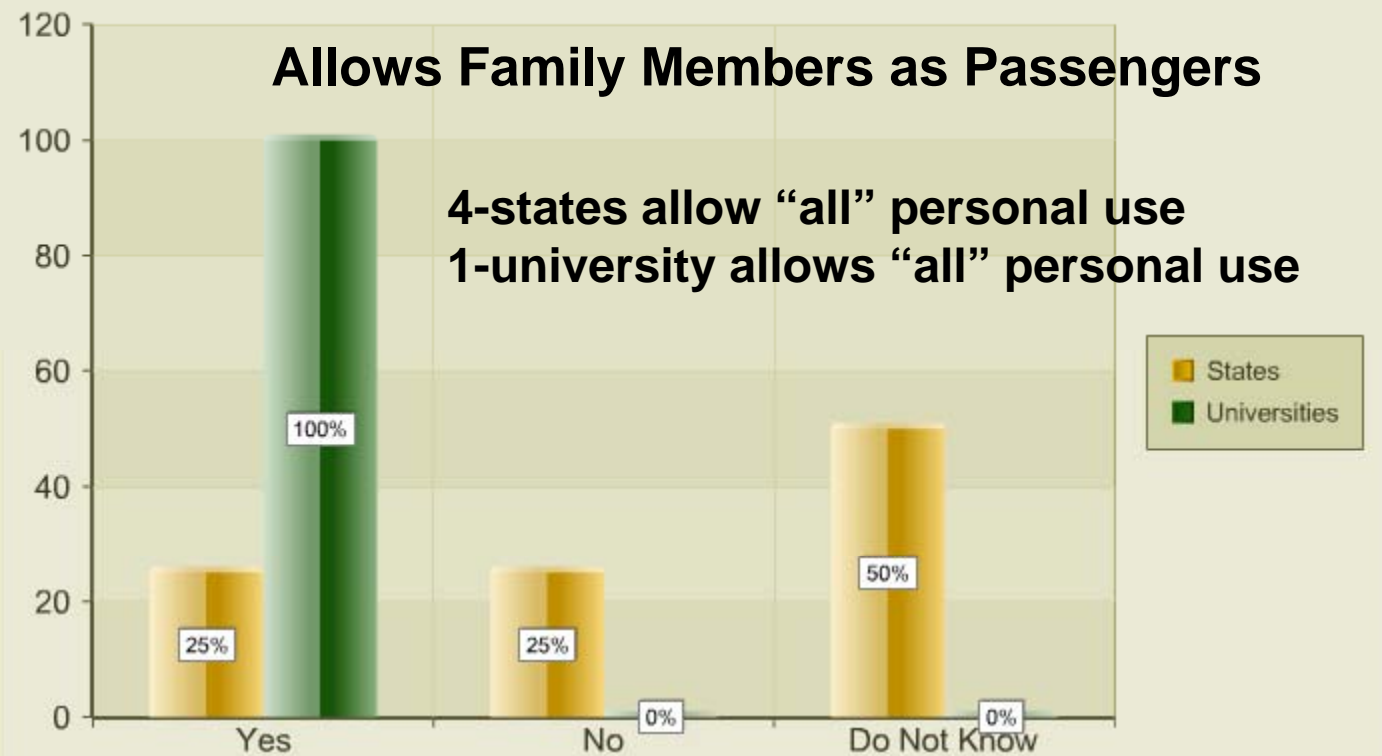
1-university allows "all" personal use

# NCSFA Survey Responses

Allows "all" personal use for THVs

## Allows Family Members as Passengers

4-states allow "all" personal use  
1-university allows "all" personal use



"Do not know" includes non-responses



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# Recordkeeping



- Employer is exempt if:
  - Written policy prohibits all personal use (other than qualified commuting and minimal use)

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# THV Success Stories

- State of Illinois
  - Set of rules—oversight by the State Travel Control Board in Illinois which promulgates rules
  - \$3.00 per day for most THVs
  - Limited use of Lease Value method for directors and office holders
  - Drivers maintain usage logs



# THV Success Stories

- State of Illinois
  - Written eligibility policy for THV drivers
  - Annual report required from agencies
    - Agency executive approval
    - Commuting criteria defined
  - Personal use prohibited other than commuting
    - Insurance consequences for non-state business use





# Employee-owned Vehicles

Personally Owned Vehicles (POV)

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# POV Survey Results

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Survey of NCSFA Members in  
September 2008 with 33 responses  
from 25 states plus 10 universities

# NCSFA Survey Responses

## POV Reimbursement Amounts



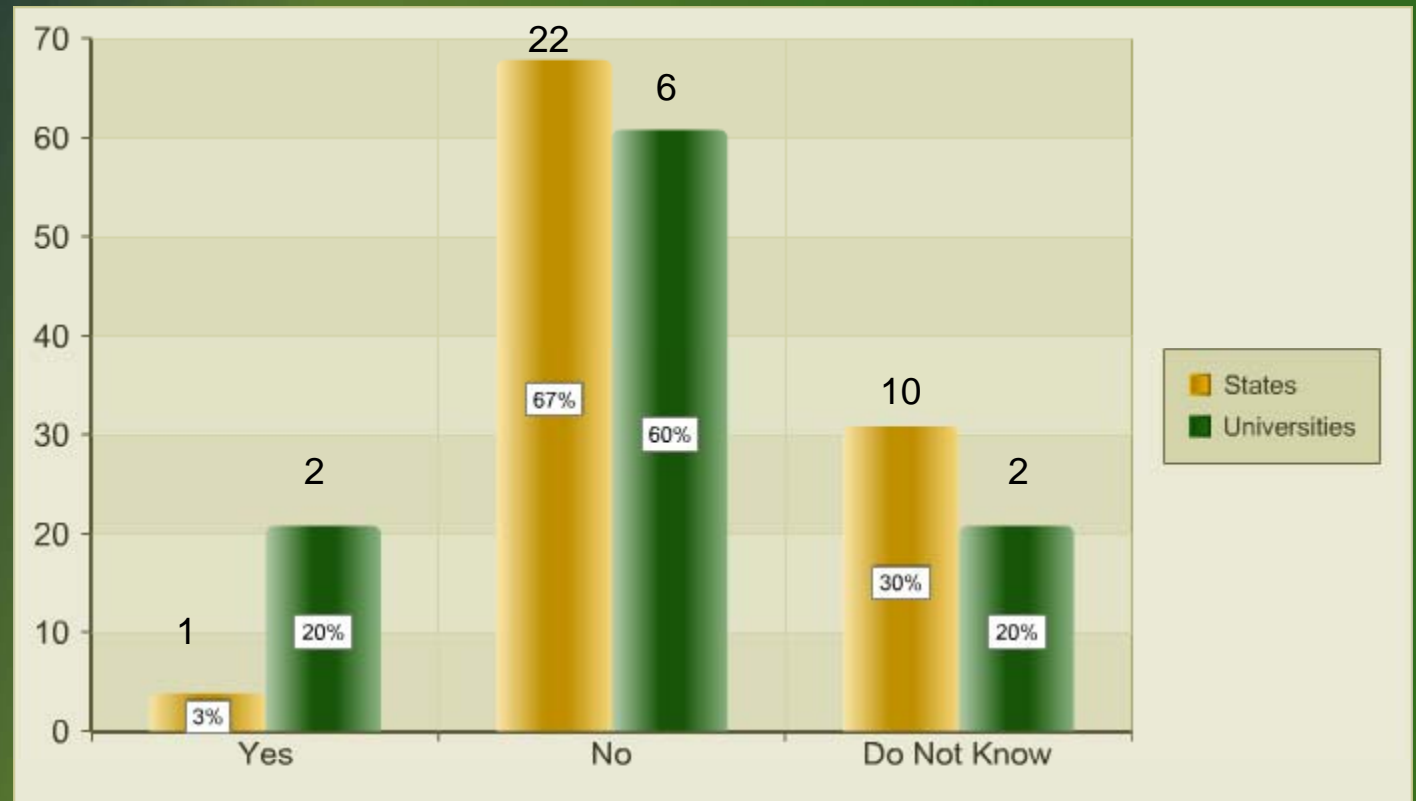
33 responses from states

10 responses from universities

“Do not know” includes non-responses

# NCSFA Survey Responses

Do you tax employees for amount of POV reimbursement?



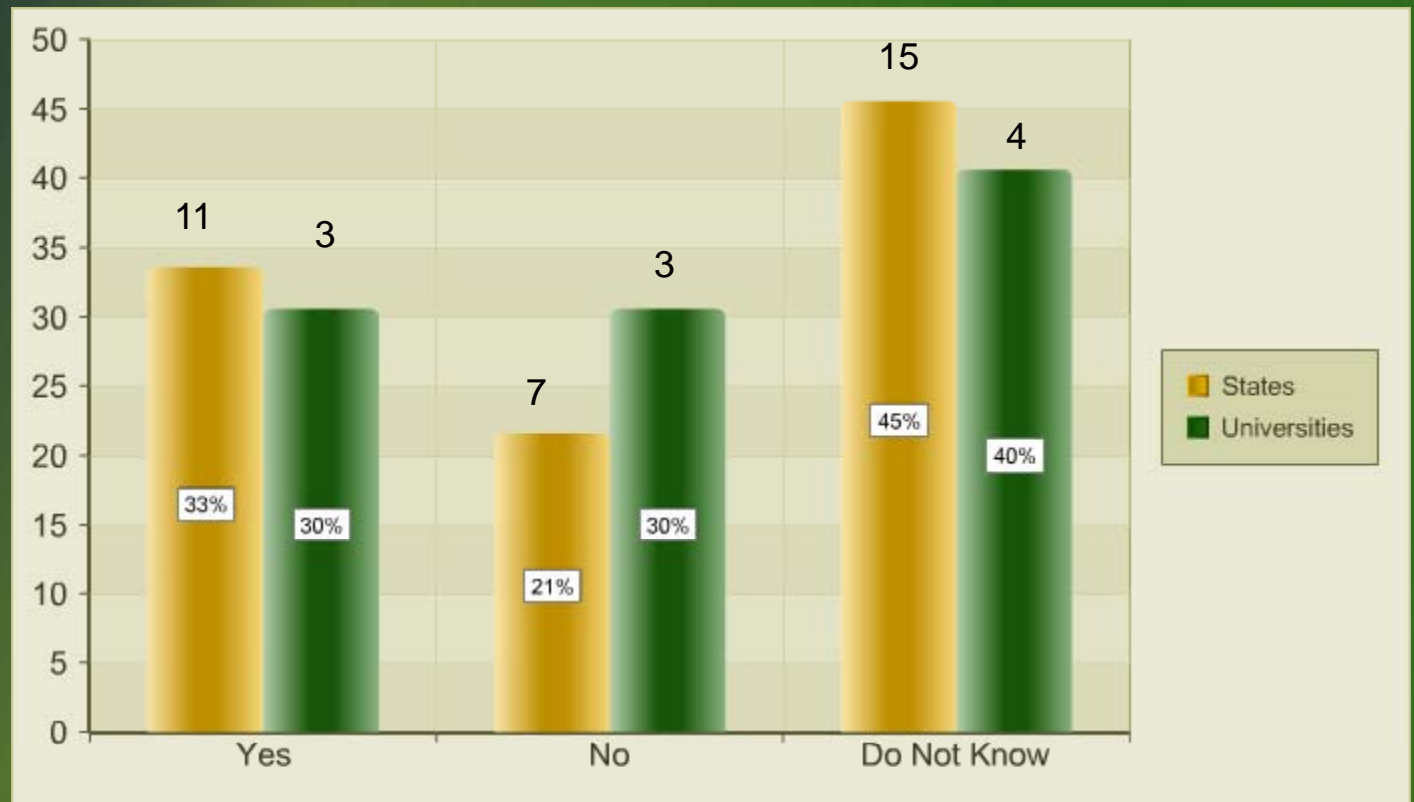
33 responses from states

10 responses from universities

“Do not know” includes non-responses

# NCSFA Survey Responses

Do you track the annual POV reimbursement spend in a separate, readily identifiable cost account?



33 responses from states

10 responses from universities

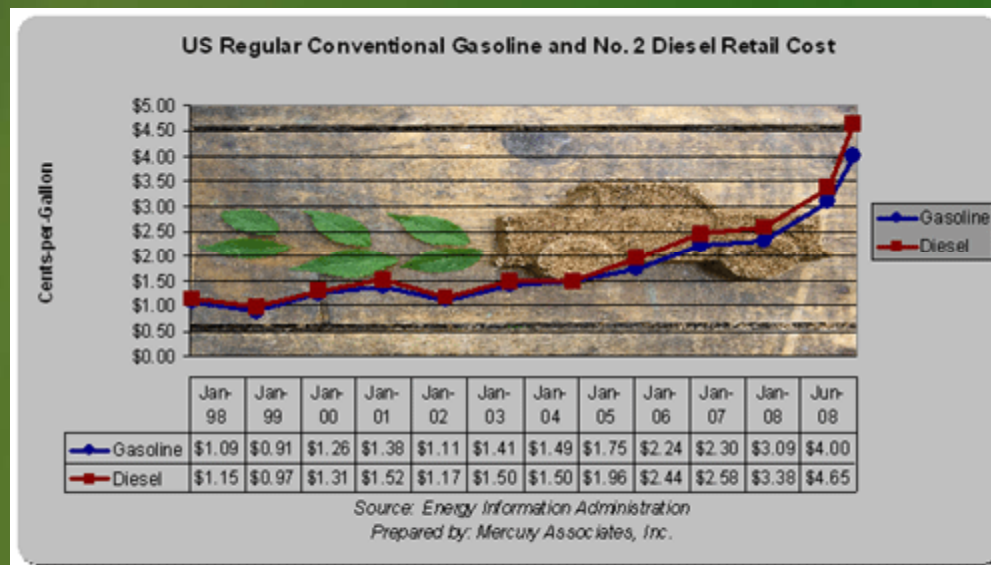
“Do not know” includes non-responses

# Cost Impact of POVs

- State A
  - 37,000 employees
  - \$13 million annual reimbursement
  - Some employees receive > \$10,000 per year
- State B
  - 58,000 employees
  - \$15 million annual reimbursement

# Cost Impact of POVs

- Typical POV reimbursement spend – 40% to 60% of state's travel budget



# POV Expense Reports

Estimated cost to process a single expense report for one POV

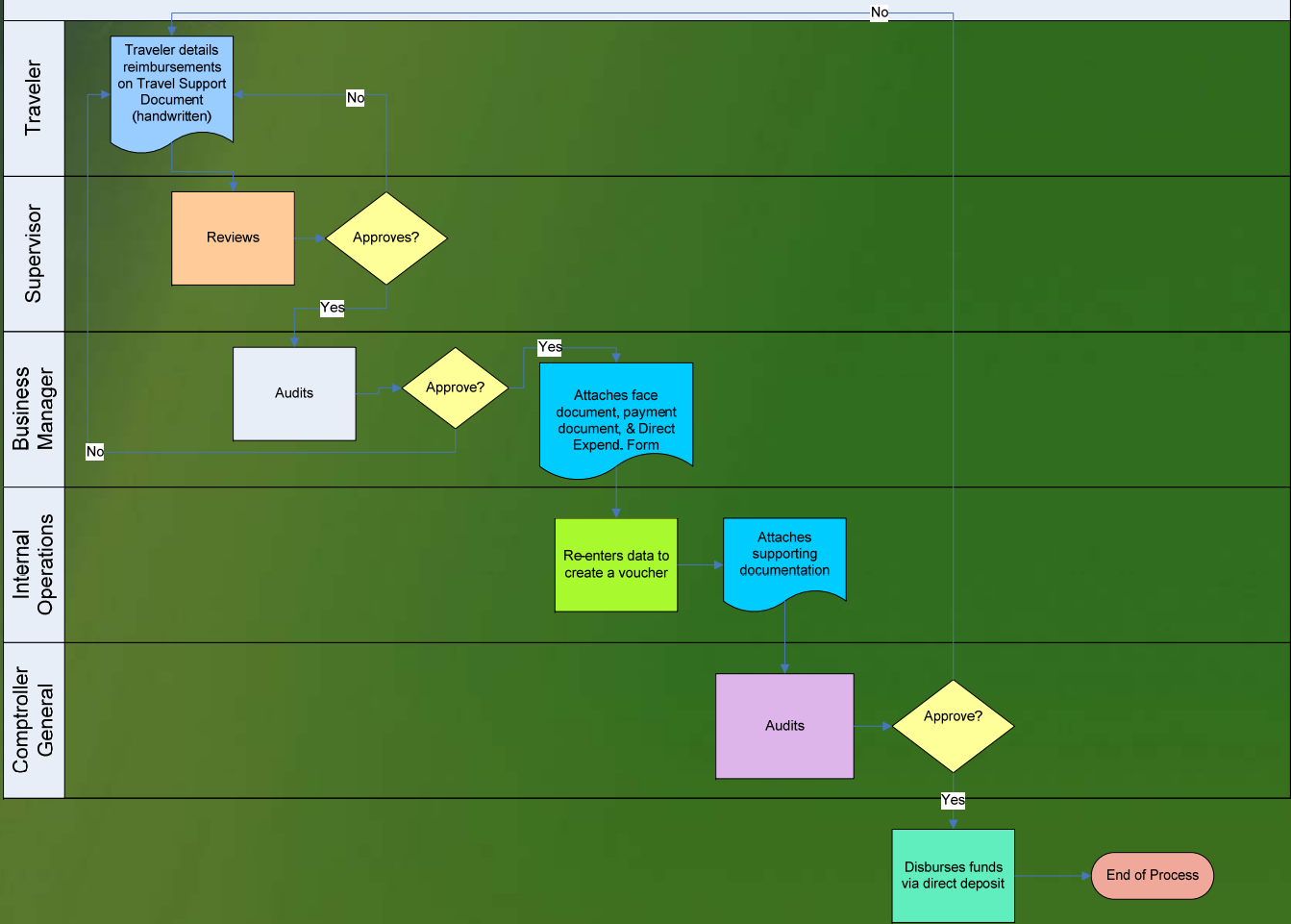
- \$30 per hour fully-burdened compensation rate (blended for all stakeholders)
- Estimated cost of materials
- Document storage
- Software
- EFT costs

	Time	Cost of Time	Materials	Total
Traveler	15	\$7.50	\$0.20	\$7.70
Supervisor	5	\$2.50	\$0.20	\$2.70
Business Manager	15	\$7.50	\$1.50	\$9.00
Internal Operations	3	\$1.50	\$0.20	\$1.70
Comptroller General	2	\$1.00	\$0.50	\$1.50
Treasurer	1	\$0.50	\$0.80	\$1.30
<b>Total</b>	<b>41</b>	<b>\$20.50</b>	<b>\$3.40</b>	<b>\$23.90</b>



# POV Expense Reports

## Travel Reimbursement Claim Process





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# Non-taxable



- **POV**

- “*Accountable plan*” must have ALL of the following:

1. Expense must have a business connection
2. Employee adequately accounts for expense within reasonable period (i.e., 60 days)
3. Employer reports excess reimbursement or allowance as wages or funds are returned from employee within reasonable period (i.e., 120 days)

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## Accountable Plan

- Must have “*adequate accounting*”
  - Employer payments “*ordinary and necessary*” in conduct of trade or business
  - Plan is similar to and payment is not more than the federal rate
    - \$0.5850 cents-per-mile standard mileage rate
    - Fixed and variable allowance (FAVR)

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# Accountable Plan

- Must have adequate accounting
  - Employee submits statement of expense, account book, diary or similar records (dates, place and business purpose)
  - Employee is not related to employer

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# POV Success Stories

- State of Illinois
  - Board chair appointed by Governor
  - Expenses considered as travel
  - Considered accountable plan only if expense is submitted in a timely basis
    - Otherwise rejected and taxed
  - Travel vouchers required for reimbursement requests
    - Oversight at agency level
    - Comptroller then processes



# POV Success Stories

- State of Illinois
  - Fleet involvement
    - Selection of transportation alternatives
      - POV
      - THV
      - Rental
      - State-owned or leased vehicles



# Data Requirements

- What type of data do you need to enact THV and POV policies and plans?
  - What is your organization doing now?
  - Develop a compliance plan
  - Determine goals
  - Establish responsibility
  - Develop policies
  - Define procedures
  - Communicate regularly



# Factors that Impact Reimbursement

- Data must be multi-directional
  - Reason for travel
  - Job functions
  - Motor pool turn-down rates
  - Travel patterns (and seasonal needs)
- Best value calculation across all dimensions
  - Motor pool rentals, agency vehicles, POV, commercial rental, public transportation
  - Reduce reimbursement for motor pool turn-downs

# Break-even Analysis

- Calculation models that identify the mileage threshold at which it is more cost effective to opt for one transportation method over another
  - Provides empirical data for employees and supervisors
  - Compares costs of permanently assigned vehicles with POVs

# References and More Info

Publication	Title
15	Circular E, Employer's Tax Guide
15A	Employer's Supplemental Tax Guide
15B	Employer's Tax Guide to Fringe Benefits
463	Travel, Entertainment, Gift and Car Expenses
535	Business Expenses



# Dear State Business Traveler:

State travel costs the taxpayers of this (entity) millions of dollars annually. It is all of our responsibility to ensure work tasks are performed as cost effectively as possible including when costs are incurred to reimburse an employee for use of their personal vehicle on (entity) business. As business and transportation costs escalate the importance of this increases significantly. This communication serves to inform employees that (name of entity) is instituting more stringent oversight of mileage reimbursement costs submitted in order to make the best use of limited tax dollars, to ensure funding is available for mission critical work tasks requiring the use of personal transportation and for greater accountability in government.

Each state business traveler is asked to help ensure that travel costs are submitted correctly and timely, reflecting only justifiable business mileage for reimbursement.

Thank you for your support in this effort. Together we can ensure tax dollars are spent within the rules and regulations governing travel reimbursement per the (reference guide for entity regulations on travel reimbursement).





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