

PERSONAL USE OF AUTO

ANNUAL LEASE VALUATION METHOD

Under the annual lease valuation method, the fair market value of an employee's personal use of a company-provided car is determined by multiplying the annual lease value of the car by the percentage of personal miles driven.

The following are the steps the employer must take:

1. Determine the fair market value of the car as of the first day it was made available to any employee for personal use. For employer-owned vehicles, this is the total cost of the car to an individual in an arm's length transaction. For employer-leased vehicles, the value can be determined by using a nationally recognized pricing source, such as the "blue book" (www.kbb.com). Whether the car is owned or leased by the employer, its value must be recalculated after four full calendar years. If the vehicle is transferred to another employee, the annual lease value may be recalculated based on the car's fair market value on January 1 of the calendar year of the transfer.
2. Find the car's fair market value in the Annual Lease Value Table.
3. Calculate the percentage of personal miles driven during the year (personal miles driven divided by total miles driven).
4. Calculate the fair market value of the employee's personal use of the car that must be included in the employee's income (annual lease value x percentage of personal miles driven).

Example: Gilbert drives an employer-provided car that he uses for both business and personal driving. Gilbert drove 17,000 miles during the year – 12,300 business miles and 4,700 personal miles. The car's fair market value is \$16,200. The amount of the car's fair market value that must be included in Gilbert's income for the year is calculated as follows:

ALV of \$16,200 car (from table)	=	\$4,600.00
% of personal miles = $4,700/17,000 = .2765$	=	27.65%

$$\text{FMV of personal use} = \$4,600 \times .2765 = \$1,271.90$$

If the employee has the car for less than a year but it is available for use for at least 30 consecutive days, the annual lease value (ALV) must be prorated for that period by using the following formula:

$$\text{Prorated ALV} = \text{ALV} \times (\text{number of days available}/365)$$

The annual lease value does not include the value of employer-provided fuel. The employer may determine the value by using the actual cost of the fuel or an IRS-approved rate of 5.5 cents (\$0.055) per mile in 2016.

IRS ANNUAL LEASE VALUE TABLE

Automobile Fair Market Value	Annual Lease Value	Automobile Fair Market Value	Annual Lease Value
\$ 0-999	\$ 600	\$22,000-22,999	\$ 6,100
1,000-1,999	850	23,000-23,999	6,350
2,000-2,999	1,100	24,000-24,999	6,600
3,000-3,999	1,350	25,000-25,999	6,850
4,000-4,999	1,600	26,000-27,999	7,250
5,000-5,999	1,850	28,000-29,999	7,750
6,000-6,999	2,100	30,000-31,999	8,250
7,000-7,999	2,350	32,000-33,999	8,750
8,000-8,999	2,600	34,000-35,999	9,250
9,000-9,999	2,850	36,000-37,999	9,750
10,000-10,999	3,100	38,000-39,999	10,250
11,000-11,999	3,350	40,000-41,999	10,750
12,000-12,999	3,600	42,000-43,999	11,250
13,000-13,999	3,850	44,000-45,999	11,750
14,000-14,999	4,100	46,000-47,999	12,250
15,000-15,999	4,350	48,000-49,999	12,750
16,000-16,999	4,600	50,000-51,999	13,250
17,000-17,999	4,850	52,000-53,999	13,750
18,000-18,999	5,100	54,000-55,999	14,250
19,000-19,999	5,350	56,000-57,999	14,750
20,000-20,999	5,600	58,000-59,999	15,250
21,000-21,999	5,850		

For vehicles having a fair market value in excess of \$59,999, the annual lease value = (0.25 x the auto's fair market value) + \$500.