



## Important - Time Sensitive

Dear Clients,

As the end of the year approaches, there are several important items that are required to be reported on employee and employee-owner W-2's. These include health insurance costs for S Corporation owners, taxable portion of group-term life insurance in excess of \$50,000, and personal use of auto of an employer-provided vehicle. We discuss each of these in more detail in this packet.

Plan to finalize the following information and provide it to your payroll processing provider during your first payroll run in December. Should there be a need to make changes, you will have additional time to make corrections and avoid being charged reprocessing fees.

We understand this packet contains a lot of information. **We have provided a separate Action Item list named "2018 Year End Packet – Action Items" that summarizes the required steps to be taken for each item.**

If you require assistance with any of the following items discussed, please contact us. We are more than happy to be of assistance.

**Hutson Gobble LLC**

### S Corporation Owner's Health Insurance Costs

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The cost of accident and health insurance premiums for 2% or more shareholder-employees paid by an S Corporation is required to be reported on the shareholder's W-2. The 2018 premiums will need to be provided to your payroll provider. These premiums are not subject to any withholdings (FICA, Medicare, or income tax).

### Group-Term Life Insurance in Excess of \$50,000

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The cost of group-term life insurance coverage over \$50,000 provided to any employee is taxable and is required to be reported on the W-2 for each employee. The taxable portion is calculated based upon the value of the policy provided and tables provided by the IRS. The taxable portion is subject to FICA and Medicare withholding only (no federal or state withholdings). Please report to your payroll processing provider.

On the following page, we have provided the IRS Table I and an example of the calculation for your use. If you require, we are available to assist with the calculations necessary to determine the employee's taxable portion of the benefit.

The cost of \$1,000 of group-term life insurance provided for one month is determined under the following IRS table ("Table I"):

**Table I**

<u>Age</u>	<u>Cost per \$1,000 for one-month period</u>
Under 25.....	\$ .05
25 to 29.....	.06
30 to 34.....	.08
35 to 39.....	.09
40 to 44.....	.10
45 to 49.....	.15
50 to 54.....	.23
55 to 59.....	.43
60 to 64.....	.66
65 to 69.....	1.27
70 and above.....	2.06

**Illustration:** During a tax year, a 57-year- old employee is provided with \$250,000 of company paid group-term life insurance. The amount that must be included in the employee's gross income as the value of the company paid group-term life insurance is determined as follows:

Total group-term life insurance.....	\$ 250,000
Less: Amount excludable.....	<u>50,000</u>
Taxable group-term life insurance.....	<u>\$ 200,000</u>
Monthly cost per \$1,000 (taken from IRS Table I)....	\$ .43
Annual cost per \$1,000 (\$.43 X 12 months).....	5.16
Amount taxable (\$5.16 X 200,000/1,000).....	1,032

The employee's age for purposes of Table I is his attained age on the last day of his tax year (12/31).

If a period of coverage is less than one month, the monthly cost is prorated over the period.

The cost of group-term life insurance provided in Table I applies only for purposes of determining the cost of group-term life insurance coverage exceeding \$50,000.

## Personal Use of Auto

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All employers who furnish vehicles to employees for the employee's use are required to add the personal use value of the vehicle to the employee's W-2. An alternative option, the employee could pay the employer for the personal use of the "employer-provided" vehicle. In order for you or our office to know how much value is to be added or reimbursed, total use and personal use information must be reported by the employee using the vehicle.

**Self-employed owners (sole proprietors and single member LLC's) do not perform this calculation. Partners in a partnership or LLC perform this calculation but the taxable benefit is instead reported to the partner as a guaranteed payment.**

This section of the enclosed packet consists of the following:

**Notice: Exhibit 1 (page 4)**—Vehicles not used for personal purposes other than commuting

This notice may be posted and enforced by employers who wish to have employer-provided vehicles available for personal commuting and minimal personal use such as stops for lunch or personal errands if they are on the business trip route taken by the employees.

**Notice: Exhibit 2 (page 5)**—Vehicles not used for personal purposes (stored at employer's premises)

Alternatively, this notice may be posted and enforced by employers who wish to have employer-provided vehicles only available for business use by the employee. These vehicles may not be used for any personal purposes except de minimus personal use such as a stop for lunch between two business locations.

**Employee Notice (page 6-7)**

This notice summarizes the employer's position on employer-provided vehicles and the employee's responsibility for documentation of vehicle use.

**Methods for Valuation of Personal Use of Employer-Provided Vehicle (page 8)**

This section explains the various methods available to compute the personal use of employer provided vehicles.

**Employee Representation Regarding Use of Employer-Provided Vehicle (page 9)**

This statement must be completed and signed by each employee who used an employer-provided vehicle.

Please read through the packet carefully! Do not hesitate to call our office if you need assistance with these forms.

**Notice: Exhibit 1**

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In accordance with Internal Revenue Service Temporary Regulations Section 1.274-6T filed November 1, 1985, you are hereby notified that vehicles provided to you for Company use during business hours are not to be used personally, except for de minimus personal use (such as a stop for lunch while on business), other than for commuting to and from your residence to our place of business. The commuting use permitted by our policy would apply only to you as an employee and all other personal use is strictly prohibited by you or any party related to you. (A related party under the tax law normally means your family.)

## Notice: Exhibit 2

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In accordance with Internal Revenue Service Temporary Regulations Section 1.274-6T filed November 1, 1985, you are hereby notified that vehicles provided to you for Company use during business hours are not to be used personally, except for de minimus personal use (such as a stop for lunch while on business).

## Employee Notice

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Attention: All Employees Provided with Company Vehicles in 2018

### **Income Tax Implications of use of Company Vehicles**

Tax laws and IRS regulations impose stringent rules to the personal use of employer-provided vehicles and require good record keeping documenting the business use of such vehicles. The following is a general discussion of the personal income tax considerations associated with the use of the Company vehicle you have been provided. We recommend that you consult your personal tax advisor regarding any specific questions you may have.

### **Company Policy**

1. The Company has elected to use special valuation rules for determining the taxable value of your personal use of the Company vehicle. Your additional compensation related to this personal use will be determined by using either the annual lease valuation, cents-per-mile or commuting valuation rules.
2. In accordance with IRS Announcement 85-113, the Company has adopted a November 30 cut off date for gathering information to report the following income on your 2018 Form W-2:
  - a) The annual lease value/cents-per-mile/or commuting value of your vehicle as determined under IRS regulations.
  - b) The value of Company-paid gasoline costs, which will be calculated by multiplying \$.055 by your non-business mileage driven from December 1, 2017 to November 30, 2018.

The Company is preparing individualized statements for each employee showing the amount of income that will be either added to your W-2 form or reimbursed by you to the Company.

These statements will be forwarded to you as soon as possible after we receive the Company Vehicle Mileage Statement (attached) on which you must indicate total miles and business miles driven in your Company vehicle from December 1, 2017 to November 30, 2018.

3. In accordance with IRC section 3402(s), the Company elects that federal income taxes will not be withheld on the taxable personal use value of your vehicle or on the value of Company-paid gasoline costs.
4. Social Security (FICA) tax and Medicare tax will be withheld at a rate of 6.2% and 1.45% respectively on a one-time, lump-sum basis for 2018. We will notify you which pay period the withholding will take place.

## Employee Notice *(continued)*

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### **Suggestions on how to Substantiate Business Use**

1. You must keep your own records. We suggest that you keep a log showing the date, amount and business purpose of each use or cost associated with your Company vehicle. (A daily calendar book will work nicely and automatically document date and purpose.) To determine your non-business use, simply calculate your total miles and then subtract your business-use miles for the period beginning December 1, 2017, and ending November 30, 2018. Note: You should record the beginning of the period and end of the period odometer readings from the vehicle.
2. Failure to maintain adequate records may result in the entire value of the vehicle being treated as taxable income to you. Such treatment could result in an assessment for back taxes, penalties and interest which could create a significant financial burden for you. Proper documentation will ensure that the Company reports the proper amount of income from personal use to you on your W-2 form or bills you for the proper reimbursement.
3. You should keep these records for at least four years so that your documentation will be available in the event of an IRS audit.

## Methods for Valuation of Personal use of Employer-Provided Vehicle

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**Please contact us for a copy of our 'Personal Use of Auto Calculator' Excel spreadsheet for use in calculating each method of valuation, or you can send the completed forms to us and we can prepare these calculations for you (standard hourly billing rates apply).**

### 1. **Annual Lease Value Table Method** – value for purchased or leased autos is different.

**Purchased Auto** - value is determined by using employer cost plus wholesale book value of any traded vehicle (if acquired at fair market value) with cost to include sales tax and title fees.

**Leased Auto** – value for leased automobiles is either:

- a. Manufacturer's suggested retail price, including sales tax and title fees, less 8%, or
- b. The retail value provided in any nationally recognized publication or electronic data base that regularly reports retail car values.

Once the fair market value of the automobile has been determined, locate the annual lease value amount in the Annual Lease Value table (included in the attached spreadsheet) and calculate the employee's personal share. In addition, you must add the value of the fuel provided, currently 5.5 cents per mile. In determining the fair market value of the vehicle you are not required to add the value of specialized equipment, i.e. car phone, if the equipment was added to satisfy employer business needs.

Once elected, the use of the annual lease value table amounts must be used for the election year and the subsequent four-year period. All vehicles which were placed in service on or after January 2, 2013 and before January 2, 2014 will need to be revalued as of January 1, 2018.

### 2. **Cents-Per-Mile Method** – value is determined by multiplying the miles driven by 54.5 cents per mile for miles driven from December 1, 2017 to November 30, 2018. Since fuel is considered to be included in the valuation, you may subtract 5.5 cents per mile if the employer does not provide fuel.

Severe restrictions apply to the use of this method. The vehicle value must be less than \$15,600 for an auto, and less than \$17,600 for trucks and vans (passenger autos built on a truck chassis, including minivans and sport-utility vehicles (SUVs) built on a truck chassis). The employer must reasonably expect that the vehicle will be used regularly in its trade or business; or the vehicle must be driven at least 10,000 miles in each year and be used primarily by employees.

### 3. **Commuting Valuation Method** – value is determined by multiplying \$1.50 per one-way commute by the number of one-way commutes by the employee during a given year. This method is available if the employer requires the employee to commute in the car for a "bona-fide noncompensatory business reason". If the employee uses the car more than a de minimus amount for other personal reasons, this method is not available.

*Note: This method is also not available to an officer whose compensation equals or exceeds \$110,000; a director; a one percent or greater owner of the business; or an employee whose compensation equals or exceeds \$220,000 for 2018.*

### 4. **Fleet Average Valuation Rule** – value is to be determined by using the annual lease value tables for the average fleet cost. This method is available only to employers providing 20 or more vehicles and has very limited use. If you feel that your company may qualify, please contact our office for the details regarding the use of this method.

## Employee Representation Regarding use of Employer-Provided Vehicle

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Reporting Period from December 1, 2017 to November 30, 2018

Employee Name: \_\_\_\_\_

Vehicle Make: \_\_\_\_\_

Model: \_\_\_\_\_

Year: \_\_\_\_\_

Date placed in service: \_\_\_\_\_

Odometer reading: Beginning \_\_\_\_\_ Ending \_\_\_\_\_

The IRS requires employers to provide certain information on their tax return with respect to the vehicle provided to you. The IRS generally requires that written records be maintained to document the use of business vehicles. Since our policy requires you to maintain the detailed records, please provide answers to the following questions. If you were provided more than one vehicle, you need to prepare one of these statements for each vehicle provided.

If you have any questions regarding the requirement that you maintain sufficient evidence to support your answers to the following questions, contact your supervisor immediately.

1. Was the vehicle available for your personal use during off-duty hours? [ ] YES [ ] NO
2. Did you have another vehicle available for your personal use (this includes a car you own personally)? [ ] YES [ ] NO
3. Are you an officer or 1% owner of the business? [ ] YES [ ] NO
4. How many commuting round trips did you make in this vehicle? \_\_\_\_\_
5. Please provide the number of miles for each category below:
 

Total business miles	_____
Total commuting miles	_____
Total other personal (non-commuting miles)	_____
Total Miles	_____
6. Did the employer pay the cost of fuel consumed by this vehicle? [ ] YES [ ] NO
7. Auto expenses paid by employee personally or any fee paid to Company. \_\_\_\_\_

The above figures are based upon my written records of business and personal use. I understand that I may be required to furnish such documentation in the event of an IRS examination.

\_\_\_\_\_  
EMPLOYEE'S SIGNATURE

\_\_\_\_\_  
DATE

\*The information contained in this form will be used to calculate an amount to be included in your 2018 W-2 income.