



OFFICE OF THE
STATE AUDITOR

Auditor Alert 2017-03

Date: August 29, 2017

Subject: Noncompliance with Reporting Personal Vehicle Use

The Office of the State Auditor has recently investigated or been advised of instances where public entities may have (1) failed to comply with IRS guidelines related to reporting personal use of entity-provided vehicles as taxable income or (2) failed to report such compensation to the Utah Public Finance Website. This Auditor Alert is intended to remind local government officials of these requirements.

Reporting Personal Vehicle Use to the IRS as Taxable Income

In general, if an employee of a public entity is assigned a vehicle which is used for commute or personal use (other than de minimus use), the IRS requires that the portion of personal vehicle use be reported as a taxable fringe benefit. IRS publication 15-B, page 23, states that, "Personal use is any use of the vehicle other than use in your trade or business." This could include commute use. The value of the benefit provided to an employee "must be included in the employee's wages or reimbursed by the employee."

In certain limited conditions, personal use of a vehicle by an employee may be exempt from taxation under the IRS designation of a "Qualified nonpersonal use vehicle" (page 21). To be exempt from taxation, the vehicle use must comply with certain requirements. One specific requirement is that the vehicle must be "[c]learly marked, through painted insignia or words, police, fire, and public safety vehicles." We remind entities that vehicles which have only small markings or markings similar in color to the vehicle may not meet the IRS criteria of a "clearly marked public safety vehicle." Also, the use of unmarked vehicles by law enforcement officers must be "officially authorized" to avoid being subject to taxation. See IRS publication 15-B, pg. 21-22 for other exemptions, particularly related to service trucks and vehicles.

IRS Publication 15-B, page 2, also classifies vehicles which are provided as part of an employee's compensation package as fringe benefits. These vehicles, as well as any other fringe benefits an entity provides, are also subject to taxation and must be included in the recipient's pay unless the law specifically excludes it (see page 3). As such, entity officials should read and follow the requirements in IRS Publication 15-B.

Reporting the Value of Vehicle Use to the Utah Public Finance Website

In addition, an employee's use of an entity-provided vehicle for commute or personal use meets the definition of "Gross Compensation" in Utah Code. *Utah Code* 63G-2-103(12) defines gross compensation as "...every form of remuneration payable for a given period to an individual ... including ... payments in kind, and any similar benefit received from the individual's employer." As such, a public entity should annually report the value of the compensation benefit for each employee's commute and personal use of an entity-provided vehicle to the Utah Public Finance Website in accordance with Transparency Advisory Board policy #01-01.02.B(4).