January 15, 2016

TO: Regional Payroll Offices

FROM: Laycie Schnekenburger
Senior Tax Accountant, SWOHR

SUBJECT: Personal Use of University Vehicles

An employee's **personal** use of university vehicles is a taxable benefit to the employee and must be reported on the employee's W-2. Note that commuting between the employee's home and work in a university vehicle is considered personal use of the university vehicle and is a taxable benefit to the employee. The use of a university vehicle for an occasional personal errand is considered a de minimis fringe benefit and is non-taxable. Use of clearly marked police and fire vehicles and qualified utility repair vehicles are exempt from the reporting requirements. The university uses the alternative accounting period of November 1, 2015 through October 31, 2016 for calculating the vehicle usage benefit.

Please distribute the enclosed informational memorandum, employee notification statement, and worksheets used for calculating the taxable benefit to all employees allowed personal use of university vehicles. You will need to receive the completed information from the employee by November 19, 2016 and process the information in a payroll run by December 16, 2016 (R26) to update the W-2 information and withhold Medicare, if applicable.

A list sorted by organizational account number (with the related department name) of the university vehicles for which that department is responsible as of October 2016 is attached. Please distribute the appropriate vehicle listing to the departments with a copy of the departmental responsibility notification to help us comply with IRS guidelines and ensure that all employees using university vehicles for personal use have been notified of their responsibilities and taxable benefit situation.

There are four methods of calculating the values of the personal use—the general (fair market value) rule and three alternative methods, which are: (1) the commuting valuation rule, (2) the cents per mile rule, and (3) the annual lease valuation rule (see University Vehicle Users notification for details). If an employee using a vehicle for personal use
does not provide the university with an "employee notification statement", the general rule method must be used to calculate the employee's taxable benefit for calendar year 2016. Since the general rule method results in the highest addition to the employee's taxable income, every effort should be made to obtain the required notification statement and worksheets from each employee.

Please review the completed form from the employee for completeness and compliance. This should include verifying that the FMV has not changed from the previous year for the cents per mile method or the annual lease valuation method. The only exception to this is when using the annual lease valuation method, the FMV can be recalculated after 4 years but then that new FMV must be used for the next 4 years. The FMV should not be adjusted for depreciation. Also, verify that the same method is being used as in the prior year unless if the employee qualifies to switch to the commuting valuation rule. It would also be acceptable for the employee to switch from the annual lease valuation method after 4 years if the employee qualifies.

Once you have received the completed information from the employee and have reviewed it for completeness and compliance, you will need to process the taxable benefit through the BHR system using benefit code 810 (Personal Use of UA Vehicle). This benefit should increase the employee’s federal taxable gross earnings, but is not subject to federal income tax withholding. However, the vehicle benefit should also increase the Medicare taxable gross for all employees hired after March 31, 1986, and we are required to withhold Medicare taxes on the taxable vehicle benefit.

If you are unable to withhold the Medicare taxes from the employee, the university will have to pay the withholding for the employee. In this case, you will need to recalculate the taxable benefit using the Medicare gross-up procedures and update the BHR system with the newly calculated taxable benefit and the Medicare tax withholding as if the employee had paid the tax. Please monitor the tax records closely as you do these entries to make sure they are adjusted properly. Again, remember that this information must be processed through BHR in a payroll run by December 16, 2016.

If you have any questions regarding this information, please email UA-Payroll@alaska.edu. Thank you.
January 15, 2016

TO: Department Heads

FROM: Laycie Schnekenburger
Senior Tax Accountant, SWOHR

SUBJECT: Personal Use of University Vehicles

An employee's personal use of university vehicles is a taxable benefit to the employee and must be reported on the employee's W-2. Note that commuting between the employee's home and work in a university vehicle is considered personal use of the university vehicle, and is a taxable benefit to the employee. The use of university vehicles for an occasional personal errand is considered a de minimis fringe benefit and is non-taxable. Use of clearly marked police and fire vehicles and qualified utility repair vehicles are exempt from the reporting requirements.

Enclosed is a listing of vehicles for which your department is responsible as of October 2016. Please provide the attached instructions and worksheets to your employees who have access to use your department vehicles for their personal use (more than just an occasional errand). These employees are required to complete the employee notification statement and worksheets and return them to your regional payroll office by November 19, 2016.

If the vehicle listing needs to be updated or changed, please email a list of the changes to ua-finsys@alaska.edu.

If you have any questions regarding this information, please contact your regional payroll office.

Thank you.
January 15, 2016

TO: University Vehicle Users

FROM: Laycie Schnekenburger  
Senior Tax Accountant, SWOHR

SUBJECT: Personal Use of University Vehicles
Employee notification and worksheets due November 19, 2016

An employee's personal use of university vehicles is a taxable benefit to the employee and must be reported on the employee's W-2. Note that commuting between the employee's home and work in a university vehicle is considered personal use of a university vehicle and is a taxable benefit to the employee. The use of university vehicles for an occasional personal errand is considered a de minimis fringe benefit and is non-taxable. Use of clearly marked police and fire vehicles and qualified utility repair vehicles are exempt from the reporting requirements.

EMPLOYEE RECORD RETENTION RESPONSIBILITIES:

The Internal Revenue Service regulations require that "adequate records or sufficient evidence" to support claimed business use of employer provided vehicles must be maintained. Use of the commuting valuation method requires maintenance of a log or record of the number of commuting trips made during the year. Each of the other methods of valuing the personal use requires maintenance of a detailed log or record of personal and business mileage. Examples of acceptable substantiation are account books, diaries, logs, receipts, or expense forms. Written records made at or near the time of use are less refutable by the IRS than oral substantiation. Failure to maintain adequate records may result in the full value of the vehicle, as calculated under the general rule, being reported as taxable income on the employee's W-2.

ACCOUNTING PERIOD USED FOR CALCULATION:

The university uses the alternative accounting period November 1, 2015 through October 31, 2016 for calculating the vehicle usage benefit. When calculating your personal use and total mileage information, use your mileage information from November 1, 2015 through October 31, 2016 instead of January 1, 2016 through December 31, 2016.
CALCULATING THE TAXABLE VEHICLE BENEFIT:

There are four methods of calculating the values of the personal use—the general (fair market value) rule and three alternative methods: (1) the commuting valuation rule, (2) the cents per mile rule, and (3) the annual lease valuation rule. Note that once a method is used to calculate your taxable vehicle income, that method must be used every year unless you qualify to switch to the commuting valuation method. Complete the attached worksheets to calculate your taxable benefit.

The general valuation rule method represents the estimated cost of renting or leasing a comparable vehicle including insurance, gasoline, maintenance, and other services for a comparable period of time. That estimated lease value is prorated between business and personal use based on the number of personal miles and total miles driven, if the employee maintains adequate records. This method is usually less advantageous to use than the other methods.

The commuting valuation rule values the personal use at a flat rate for each commute, $1.50 one way or $3.00 round trip. This rule can be used if (1) the vehicle is used in the employer's business, (2) the employer requires the employee to commute to and from work in the vehicle, (3) the employer has a written policy prohibiting personal use other than commuting and de-minimis personal use, (4) the employee, except for de-minimis personal use, does not use the vehicle for any personal purpose other than commuting, and (5) the employee's compensation is less than $148,700 for calendar year 2016. This method may be used even if the "cents per mile" or "lease valuation" methods were used in prior years.

The cents per mile valuation rule values the personal use by multiplying the number of personal miles driven by the standard mileage allowance. The standard mileage rate for the period from November 1, 2015 thru December 31, 2015 is $.575 (57.5 cents) per mile, and from January 11 2016 thru October 31, 2016 is $.540 (54 cents) per mile. The standard mileage rate includes provisions for the cost of insurance, maintenance, and gasoline. If the employee provides his own fuel, the standard mileage allowance is reduced by 5.5 cents ($.055) per mile. Once adopted, this method must be used every year that the vehicle qualifies for such use unless you qualify to use the commuting method. The cents per mile rule can only be used if the vehicle is used primarily for business use (more than 50%), or (1) the vehicle is driven at least 10,000 miles during a year, and (2) the vehicle is driven primarily by the employee (not family members). If the university owns or leases the vehicle for only part of the year, the 10,000 miles threshold is reduced proportionally.
Also, if 2016 is the employee's first year of access to personal use of the vehicle, the cost of the vehicle cannot exceed $16,000 for a passenger automobile or $17,500 for a truck or van. If the cost of the vehicle exceeds this amount, the employee is not eligible to use this method. The cost of the vehicle should be used as the FMV for the vehicle as long as it is in service provided the same employee uses the vehicle the entire time. The FMV should not be adjusted for depreciation. If the vehicle is not new when provided to the employee or the employee elects to switch to this method in a later year, the “blue book” value as of January 1 should be used for the FMV.

The annual lease valuation rule values the personal use based on the cost of the vehicle or its fair market value (blue book or equivalent) on the first day it is made available for personal use. The fair market value of the vehicle must be revalued as of January 1 after each full four-year period. The annual lease value for the vehicle is derived from comparing the vehicle’s fair market value to an IRS table. The lease value from the IRS table is multiplied by your total personal use percentage (total personal miles divided by total miles driven) to determine your taxable vehicle income. If the university provides fuel for the vehicle, an additional 5.5 cents per mile driven or the actual cost of gasoline must be multiplied by the personal use percentage and added to the calculated taxable income (see the attached worksheets).

**EMPLOYEE ACTION REQUIRED:**

Each affected employee must complete the attached employee notification statement indicating that he/she (1) knows which alternative method or rule described above the university intends to use for valuation, (2) knows the applicable substantiation requirements, and (3) knows the effect of failure to comply with such requirements. The completed employee notification statement and the completed taxable benefit calculation worksheets must be returned to your regional payroll office by November 19, 2016 for proper inclusion of your taxable benefit onto your W-2. If the completed statements are not received by the regional payroll offices, the university is required to calculate your taxable benefit using the general valuation rule, which typically produces the highest taxable income to include on your W-2.

If you have any questions or require clarification of this information, please contact your regional payroll office.

Thank you.
EMPLOYEE NOTIFICATION STATEMENT FOR PERSONAL USE OF UNIVERSITY VEHICLES

EMPLOYEE NAME: ________________________________

EMPLOYEE ID NUMBER: ________________________________

This statement represents confirmation that I have been informed that the University of Alaska intends to include the value of any personal use of a university vehicle on my W-2 for 2016. The income will be subject to Medicare tax withholding, unless I commenced employment with the university before March 31, 1986.

The following method will be utilized to value the personal use: (check one)

A. ______ General valuation rule

B. ______ Commuting valuation rule

C. ______ Cents per mile valuation rule

D. ______ Annual lease valuation rule

Note: If you have had the use of this vehicle in prior years, you must use the same method to calculate your taxable benefit as you used in prior years unless you qualify to switch to the commuting valuation rule.

I know the record keeping and substantiation requirements associated with the use of the above noted method of valuation and the consequence of the failure to maintain or comply with such requirements as described in a memorandum by the Payroll/Benefit Accounting Department to vehicle users.

__________________________________________  ____________
Employee signature Date

Please return this form and the completed worksheets to your Regional Payroll Office by November 20, 2016.
UNIVERSITY OF ALASKA PERSONAL USE OF UNIVERSITY VEHICLE TAXABLE BENEFIT CALCULATION WORKSHEET

UNIT (Campus): 

EMPLOYEE NAME: 

EMPLOYEE ID NUMBER: 

VEHICLE DESCRIPTION: 

ACCOUNTING PERIOD: November 1, 2015 through October 31, 2016

Internal Revenue Service regulations allow the university to calculate the personal use benefit from November 1, 2015 through October 31, 2016 to enable timely processing of the benefit on the W-2 forms. Please make sure that the calculations performed in this worksheet are based on your vehicle usage for the period November 1, 2015 through October 31, 2016 and NOT on January 1, 2016 through December 31, 2016 information.

PLEASE COMPLETE SECTION A, B, C OR D (see memorandum to vehicle users for definition and qualifications to use these methods).

A. General Valuation Method

Qualifications: If you use this valuation method, you must continue to use this method for all future years unless you qualify for the commuting valuation method or you receive a different vehicle.

Valuation Method: Please complete the following in order to determine the amount that will be added to your W2 for taxable personal use of vehicle.

1. a. Fair market value (cost to lease for one year, must be revalued after every fourth full year) $ _____________
   b. Date value determined ____________________________
   c. How determined ________________________________

2. Personal use percentage multiplier
   a. Total personal miles driven _______________________
   b. Total miles driven ______________________________
   c. Personal use percentage
      (2a divided by 2b) _______________________________
A. General Valuation Method (continued)

3. Calculation of taxable income
   a. Annual Lease Value (line 1a) $__________
   b. Personal use percentage (line 2c)
      (If full year, enter 100%)
   g. Taxable benefit (line 3a times 3b) $__________

B. Commuting Valuation Method

Qualifications: Please answer the following questions to see if you qualify to use the commuting valuation method. You may change to this valuation method if you are qualified even if you have used the cents-per-mile or annual lease valuation methods in the past.
   a. Is the vehicle owned or leased by the university? Yes No
   b. Is the vehicle provided to you in order to transact university business? Yes No
   c. Does the university require you to commute to and/or from work in the vehicle (i.e. vehicle needed for on-call duties)? Yes No
   d. Will you earn less than $147,200 in calendar year 2016? Yes No
If you answered “No” to any of the above questions, you do not qualify to use the commuting valuation method.

Valuation Method: Please complete the following in order to determine the amount that will be added to your W2 for taxable personal use of vehicle.

1. a. Number of days driven for commuting __________
   b. Rate ($3.00 round trip or $1.50 one way) __________
   c. Taxable Benefit to be included on W-2 $__________
      (1a x 1b)

C. Cent-Per-Mile Method

Qualifications: Please answer the following questions to see if you qualify to use the cents-per-mile valuation method. If you use this valuation method, you must continue to use this method for all future years unless you qualify for the commuting valuation method or you receive a different vehicle.
   a. Is the fair market value of the vehicle less than $16,000 ($17,300 for truck or van)? Yes No
      Date value determined ____________________________
      How determined ____________________________
   b. Is the vehicle being used regularly by you for university business, or has the vehicle been driven at least 10,000 miles this year by a university employee? Yes No
C. **Cent-Per-Mile Method (continued)**

If you answered “No” to any of the above questions, you do not qualify to use the cents-per-mile valuation method.

**Valuation Method:** Please complete the following in order to determine the amount that will be added to your W2 for taxable personal use of vehicle.

1. **Taxable Benefit to be included on employee's W-2:**
   a. Personal miles driven from 11/1/13 to 10/31/14
   b. Rate (.56 if fuel provided by university, .505 if fuel provided by employee)
   c. **Taxable benefit (1a X 1b)**

D. **Annual Lease Value Method**

**Qualifications:** Please use this valuation method if you do not qualify for the commuting valuation method or the cents-per-mile valuation method. If you use this valuation method, you must continue to use this method for all future years unless you qualify for the commuting valuation method or you receive a different vehicle.

1. a. **Fair market value**
   b. Date fair market value determined
   c. How determined:

2. **Annual Lease Value**
   (see attached Annual Lease Value Table) $____________

3. Partial year usage multiplier. Complete this step only if the university vehicle was available for your use for less than an entire year.

   a. Dates of vehicle availability
   b. Number of continuous days vehicle was available (less than 1 year)

D. **Annual Lease Value Method (continued)**

   c. If 3b is greater than 30 days, divide 3b by 365 days and enter here
   d. If 3b is less than 30 days, then divide the lesser of (3b X 4) or 30 days by 365 days and enter here

4. Complete this step only if the university paid for/provided fuel.
   a. If the university provided fuel, then multiply total miles driven by .055 and enter here $_____
b. If the actual fuel cost was reimbursed by the university, enter reimbursed cost here $__________

5. Personal use percentage multiplier
   a. Total personal miles driven __________________________
   b. Total miles driven __________________________
   c. Personal use percentage (5a divided by 5b) __________________________

6. Calculation of taxable income
   a. Annual Lease Value (line 2) $__________
   b. Partial year multiplier (line 3c or 3d) __________________________
   (If full year, enter 100%)
   c. Multiply 6a times 6b and enter here $__________
   d. Fuel provided (line 4a or 4b) $__________
   e. Subtotal (add 6c and d) $__________
   f. Personal use percentage (line 5c) __________________________
   g. Taxable benefit (line 6e times 6f) $__________

Prepared By __________________________ Contact Phone __________________________

RETURN COMPLETED FORM TO THE REGIONAL PAYROLL OFFICE NO LATER THAN NOVEMBER 20, 2016.
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* For vehicles having a fair market value equal to or in excess of $59,999, the Annual Lease Value is equal to (25% x automobile fair market value) + $500.