



**Finance & Administrative Services**  
*Office of Accounting Services*  
*Payroll*

## **Taxable Income Calculation-Annual Lease Value**

When an employer provides a car to an employee that is available for the employee's personal use, that availability is considered to be a taxable fringe benefit. The regulations are the same, no matter if the car is owned by the University, or owned or leased by a third party (a dealership or the Foundation). When an individual is a control employee (comparable to a corporate officer or highly compensated employee in the for-profit world) we must use the annual lease value method.

The IRS provides a table with the ranges of fair market values and the related taxable income. The IRS table is based on a four-year lease term. At the beginning of the fifth year (and every four years thereafter) the annual lease value must be redetermined based on the fair market value of the car on January 1 of that year.

The employee keeps a log of daily mileage - business and personal. The calculation of taxable income attributed to the car is based on his personal mileage only.

The calculation is:

$$\text{Personal Mileage/Total Mileage} = \% \text{ Personal Use}$$

$$(\text{Annual Lease Value}) \times (\% \text{ Personal Use}) / 12 \text{ months} = \text{Monthly income attributed to car usage}$$

The monthly income amount is loaded into the fringe benefit system that feeds into the payroll system. The monthly income attributed to car usage is included in taxable income when payroll is processed so that the employee pays federal and state income taxes. The taxable income on the W-2 form includes the car usage income.