



November, 2010

Re: Business Automobiles

Dear Client:

The Internal Revenue Service requires records to be maintained regarding business mileage in order to claim deductions for expenses related to the use of a passenger automobile for business purposes. Mileage related to personal use of a business automobile must be valued according to various IRS regulations and included as compensation on the employee's W-2. This mileage information is required to be reported on your business tax return for vehicles used by more than 5% owners of a corporation. If you provide vehicles to non-owner employees, you may be required to disclose mileage information on those vehicles as well. These provisions apply to owned as well as leased vehicles.

In order to assist you in complying with IRS regulations, we have enclosed two worksheets for your use.

- Worksheet 1 is for the employee to complete and sign to document the business/personal mileage information. This is also the information required to be reported on the business tax return.
- Worksheet 2 is used to compute the taxable value of the mileage based on the fair market value of the vehicle. This is the amount that is deemed to be additional compensation required to be included on the employee's W-2.

We suggest that you distribute copies of Worksheet 1 to affected employees as soon as possible. The sheets should be completed based on an annual reporting period beginning December 1 and ending November 30 (or any other annual period you choose). It is important that employees return the completed forms as soon as possible, but in no event later, than the last payroll date for the calendar year. This is necessary because the additional compensation, which will be added to the employee's taxable wages, will result in required withholding of FICA, Medicare and, if elected, federal and state income tax. The employer cannot pay the employee's portion of this tax without it becoming additional compensation, so the employee must have other cash wages from which to withhold the tax. If desired, the effect on the net pay of the employee can be eliminated by grossing up any non-cash compensation.

Please use the worksheets and information in this letter to include the correct amount of compensation on your employee's 2010 W-2's. If your payroll is processed by Robert F. Murray & Co., **please return the completed sheets before your last regular payroll date for 2010.** If your payroll is processed by a third party such as Paychex, please check with them regarding the procedures and timing for making these adjustments. Of course, we would be glad to assist you in coordinating this if you choose.

If you have any questions or if we can assist you in any other way, please do not hesitate to contact us.

Sincerely,

Robert F. Murray and Company
Certified Public Accountants
A Professional Corporation

WORKSHEET 1
STATEMENT FROM EMPLOYEE TO EMPLOYER REGARDING
USE OF EMPLOYER-PROVIDED VEHICLE
FOR CALENDAR YEAR 2010

Regarding: Your Use of Following Vehicle:

EMPLOYER'S NAME: _____

VEHICLE DESCRIPTION: _____

Dear Employee:

As you are probably aware, the IRS requires employers to provide certain information on their tax return with respect to the vehicle provided to you during the calendar year. 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) Please provide the number of miles for each category below:

Total Business Miles	_____	Miles
Total Commuting Miles	_____	Miles
Total Other Personal (Non-Commuting) Miles	_____	Miles
TOTAL MILES	_____	Miles

(4) Did the employer pay the cost of fuel consumed by this vehicle? YES NO

Percent of taxable benefit to be withheld for income tax, if elected:

Federal _____ Michigan _____ or _____

If you believe no additional withholdings are required please sign.

This information must be returned before the last payroll of the year, so that your 2010 earnings may be prepared accurately. If not returned, 100% of the fair market value will be included in your W-2 wages.

After you have read this statement, had your questions answered and responded to items (1) through (4) above, please sign and date in the space provided below and return to your supervisor immediately.

(Employee's Signature and Date)

WORKSHEET 2
 EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S
 TAXABLE INCOME RESULTING FROM
 EMPLOYER-PROVIDED VEHICLE
 FOR CALENDAR YEAR 2010

EMPLOYER'S NAME: _____

EMPLOYEE'S NAME: _____

VEHICLE DESCRIPTION: _____ DATE ACQUIRED: _____

Period covered: _____ to _____

Fair Market Value of Vehicle at Date
 placed in service (Note: If the vehicle
 was placed in service in a prior year,
 the value established in that year must
 be used. **You may re-determine the fair
 market value after four years)**

\$ _____

(A) Annual Lease Value - Determined by Using
 Above Fair Market Value and Annual Lease
 Value from attached table

(A) \$ _____

(B) Prorate to cover period less than 12 months (if applicable)
 (# of days used ÷ 365)

(B) x _____%

(C) Annual lease value for 2010 (A x B)

(C) \$ _____

Total Miles Driven During Year

(1) _____

Subtract: Total Business Miles Driven

(2) _____

Total Personal Miles Driven

(3) _____

(D) Personal Use - Divide Step (3) by Step (1)

(D) _____%

(E) Personal Value of Annual Lease -
 Multiply (C) × (D)

(E) \$ _____

(F) If Employer Pays for Fuel, Multiply the
 number of personal miles driven by 5.5
 cents per mile. Otherwise, enter \$-0-

(F) \$ _____

(G) If Employee Pays for Fuel and is not reimbursed,
 multiply the number of business miles driven by 5.5
 cents per mile. Otherwise, enter \$-0-

(G) \$ _____

Total employee taxable income - Add (E) and (F) minus (G)

\$ _____

TABLE R204

Annual Lease Value Table for Employer-provided Autos

This table can be used to value the personal use of employer-provided autos.^a (See Key Issue 10M.) Multiply the table value by the personal-use percentage (based on allocation of personal and business miles driven) when the annual lease value method is selected by the employer to value the fringe benefit. The product of the personal-use percentage, the portion of the year the auto was provided to the employee, and the annual lease value (based on the FMV of the auto) must be included in the employee's gross income as wages subject to FICA. Employers can elect to not withhold FIT.

The auto's FMV when first provided to the employee is used to determine the annual lease value for each of the first four full calendar years of use by an employee. In the fifth full calendar year the auto is used, the FMV is redetermined and a new annual lease value is calculated, which is then used for the second four-year period.

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

Notes:

- ^a Table may be found in Reg. 1.61-21(d)(2)(iii).
- ^b Plus FMV of gas reimbursed by or charged to the employer (FMV of 5.5¢ per mile may be used).
- ^c For autos having a fair market value in excess of \$59,999, the Annual Lease Value is equal to $(.25 \times \text{the fair market value of the automobile}) + \500 .