The proper treatment of expense reimbursement

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Two areas that are often overlooked by businesses and organizations - but not overlooked by IRS auditors - are employer provided vehicles and reimbursed employee expenses. By taking note of the following information, businesses and organizations can avoid two common record keeping pitfalls when filing tax returns

Employer Provided Vehicles

* The use of an employer provided vehicle is taxable to an employee and the personal use value of the vehicle must be reported on the employee's Form W-2 as income. The personal use value amount is subject to income and Social Security tax as well as federal unemployment tax.

* The personal use value portion of expenses in connection with the employer provided vehicle which are paid directly by the employer are also subject to taxation and must be reported on the employee's W-2 as income.

There are three valuation rules for assessing the use of the employer provided vehicle:

* Automobile lease valuation rule: You determine the value of an automobile you provide to an employee by using its annual lease value. For an automobile provided only part of the year, use either its prorated annual lease value or its daily lease value.

* Vehicle cents-per-mile rule: You determine the value of a vehicle you provide to an employee for personal use by multiplying the standard mileage rate (currently set by the IRS at 55.5 cents/mile) by the total miles the employee drives the vehicle for personal purposes.

Commuting valuation rule: You determine the value of a vehicle you provide to an employee for commuting use by multiplying each one-way commute by $1.50.

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