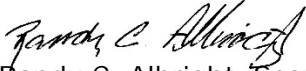


# MANAGEMENT DIRECTIVE

Commonwealth of Pennsylvania  
Governor's Office

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| <b>Subject:</b><br>Taxability of the Use of State-Provided Vehicles   | <b>Number:</b><br>315.20 Amended  |
| <b>Date:</b><br>September 5, 2018   | <b>By Direction of:</b><br><br>Randy C. Albright, Secretary of the Budget |
| <b>Contact Agency:</b><br>Office of the Budget, Office of Comptroller Operations, Bureau of Commonwealth Payroll Operations, Telephone 717.772.5340 |   |

**This directive establishes policy, responsibilities, and procedures for determining taxability of the use of state-provided vehicles and for withholding and reporting the applicable taxes for noncash compensation. This amendment includes minor changes to definitions and updates the procedures for submitting monthly automotive reports and declarations of use of state-provided vehicles to the Bureau of Commonwealth Payroll Operations. Marginal dots have been excluded due to major changes.**

- 1. PURPOSE.** To establish policy, responsibilities, and procedures for determining taxability of the use of state-provided vehicles and for withholding and reporting the applicable taxes for noncash compensation.
- 2. SCOPE.** The directive applies to all departments, offices, boards, commissions, and councils (hereinafter referred to as "agencies") under the Governor's jurisdiction and independent agencies using the SAP Human Resource and Payroll Module.
- 3. OBJECTIVE.** To ensure the withholding and reporting of tax on noncash compensation relating to the use of state-provided vehicles complies with federal and state regulations.
- 4. DEFINITIONS.**
  - a. Business Mileage.** Mileage driven during the conduct of official commonwealth business. This does not include commuting to and from home.

- b. Cents-Per-Mile Rule.** One of three methods allowed by the IRS to place a value on the use of an employer-provided vehicle. The value is determined by multiplying the standard mileage rate, determined annually by the IRS, by the total miles the employee drives the vehicle for commute use.
- c. Commonwealth Fleet Vehicle.** All commonwealth-owned vehicles monitored or maintained under the supervision of the Department of General Services (DGS).
- d. Commuter Mileage.** Commuting from home to headquarters and from headquarters to home. Employees headquartered at their homes are in commuter mileage status from their homes to first work location and from last work location to home.
- e. Commuting Rule.** One of three methods allowed by the IRS to place a value on the use of an employer-provided vehicle. The value assigned for each one-way commute is determined annually by the IRS.
- f. Compensation, Salary, and Wages.** All compensation including overtime pay and bonus payments.
- g. Control Employee.** For the purpose of this directive, a control employee is:
  - (1) An elected official, or
  - (2) An employee whose compensation is equal to or greater than the basic pay for Federal Government Executive Level V. For current values, see the published [Rates Related to State-Provided Vehicles](#).
- h. De Minimis Vehicle Usage.** The personal use of a state-provided vehicle that is of a value so small that accounting for it would be unreasonable or administratively impractical.
- i. Fair Market Value (FMV).** The amount an employee would have to pay a third party to lease the same or similar vehicle on the same or comparable terms in the geographic area where the employee uses the vehicle.
- j. Lease Value Rule.** One of three methods allowed by the IRS to place a value on the use of an employer-provided vehicle. The IRS assigns a lease value for the vehicle based on the FMV of the vehicle. The annual lease value (ALV) can be found in the IRS Annual Lease Value Table. It is determined by multiplying the percentage of commuter mileage to total mileage by the ALV. An additional amount is added for the value of gas.
- k. Maximum Automobile Value.** An amount determined by the IRS to be the maximum automobile value for a given year. For current values, see the published Rates Related to State-Provided Vehicles.
- l. Regular Employee.** An employee who does not meet the definition of a control employee and is authorized to use a state-provided vehicle for only business, commuting, and de minimis purposes.

- m. State-Provided Vehicles.** Vehicles provided by the commonwealth for official use by commonwealth employees. When used, this term includes commonwealth fleet vehicles and temporary transportation vehicles.
- n. Temporary Transportation Vehicle.** Commonwealth-provided vehicles made available by DGS, Bureau of Vehicle Management through state contract to meet the short term transportation demands of agencies as needed on a temporary basis.

## 5. POLICY.

- a.** The value of employee use of a state-provided vehicle is taxable as noncash compensation under the *Internal Revenue Code §132, Certain Fringe Benefits*, and *26 C.F.R. §1.61-21, Taxation of Fringe Benefits*.
- b.** State-provided vehicles shall be assigned and used in accordance with policy and procedures established by the Executive Board and the Department of General Services (DGS), as described in *4 Pennsylvania Code, Chapter 39* and *Chapter 73; Management Directive 615.1, Commonwealth Temporary Transportation Vehicles; Management Directive 615.16, Commonwealth Fleet Policy*; and *Manual 615.3, Commonwealth Fleet Procedures Manual*.
- c.** Commonwealth employees who have state-provided vehicles permanently assigned to them for one or more days and who park the vehicles overnight at their residences are covered by the amendments to the Internal Revenue Code and the Federal Insurance Contribution Act. Assignments of temporary transportation vehicles are not covered unless the temporary transportation vehicle is a short-term replacement for a permanent assignment or such assignment is for a period less than 30 days.
- d.** The commuting value of a state-provided vehicle for each day that an employee is in compensable commuting status shall be determined in accordance with the rate established by the IRS and reduced by a factor incorporating the average paid and unpaid leave and holidays used by commonwealth employees. When more than one employee regularly commutes in a state vehicle, each rider will be assessed according to this calculation. For the purpose of this directive, responsibilities and procedures that pertain to regular employees who have state-provided vehicles permanently assigned to them and who park those vehicles overnight at their residences shall also apply to riders who commute in state-provided vehicles.
- e.** For control employees, special procedures are required for calculating the value of the employee use of a state-provided vehicle. Calculations differ as follows based on the FMV of the vehicle when purchased. In either case, control employees must maintain adequate records to substantiate use of a state-provided vehicle.
  - (1)** The cents-per-mile rule applies to vehicles having a FMV less than the maximum automobile value established annually by the IRS and the vehicle is driven more than a total of 10,000 miles a year.

- (2) The lease value rule applies to vehicles having a FMV more than the maximum automobile value established annually by the IRS, or a FMV less than the maximum automobile value established annually by the IRS if the vehicle is driven less than 10,000 miles a year.
- f. The commonwealth must continue to use the lease value rule for employees who use vehicles that meet the IRS definition for the ALV. According to *26 C.F.R. §1.61-21(d)(7)(ii)*, once the lease value rule has been adopted for an automobile by an employer, the rule must be used by the employer for all subsequent years in which the employer makes the automobile available to any employee, **except** for any year during which use of the automobile qualifies for the commuting rule.
- g. The Annual Lease Value Schedule is established by the IRS based on four-year lease terms. The ALV calculation begins with the first date the valuation is applied when the employee receives a state-provided vehicle and remains in effect until December 31, of the fourth full calendar year following that date. The ALV for each subsequent four-year period is calculated by determining the FMV of the vehicle as of the first January 1 following the previous four-year period.
- h. For control employees the commonwealth applies the IRS Special Accounting Rule as follows: The value of a state-provided vehicle during the last two months of a calendar year will be treated as having been paid during the subsequent calendar year. The value of a state-provided vehicle will be calculated for the period November 1 through October 31 of the appropriate tax year.
- i. Under current IRS regulations, the use of certain types of vehicles, including state-provided vehicles, by certain law enforcement classifications of employees, is exempt from taxation. For additional details, refer to the [list of tax-exempt vehicles](#) and the [list of exempt law enforcement classifications](#).

## 6. RESPONSIBILITIES.

- a. **Control Employees** shall complete [Form STD-554, Monthly Automotive Report \(Form STD-554\)](#) each month and send it to the agency's automotive liaison.
- b. **Agencies** shall:

  - (1) By January 31, each year, inform commonwealth employees who have state-provided vehicles permanently assigned to them and who park those vehicles overnight at their residences that the use of the vehicles is noncash compensation subject to taxes and that such compensation will appear on biweekly employee pay statements.
  - (2) Inform commonwealth employees with permanently assigned vehicles that:

    - (a) The value of the noncash compensation will be included in the employee's biweekly federal taxable wage.

- (b) Only Social Security, Medicare, and Unemployment Compensation taxes will be deducted from the employee's biweekly gross income.
    - 1 If a control employee does not desire federal withholding tax to be deducted biweekly, the Office of the Budget, Office of Comptroller Operations, Bureau of Commonwealth Payroll Operations (BCPO) must be contacted.
    - 2 If a regular employee desires that federal withholding tax be deducted biweekly, the employee must complete a new IRS Form W-4, Employee's Withholding Allowance Certificate, for the additional amount the employee wants to have deducted.
  - (3) Provide the following forms and data to [RA-BCPOStateVehicles@pa.gov](mailto:RA-BCPOStateVehicles@pa.gov) and DGS (except for the Department of Transportation, which provides information only to BCPO) so that proper reporting of employees' taxable earnings and tax deductions may be accomplished timely:
    - (a) [Form STD-928, Declaration of Use of a State-Provided Vehicle \(Form STD-928\)](#), for starting, changing, or stopping of the use of a vehicle. (Do not complete this form for less than a 30 calendar day interruption of a vehicle assignment.) **When an employee is on leave without pay, a new Form STD-928 must be completed with a check mark to the box: "The employee listed above no longer has a state-provided vehicle permanently assigned to them." If BCPO is not notified the employee will continue to have the noncash compensation processed as taxable income.**
    - (b) Control employees must also provide Form STD-554 monthly.
  - (4) Initiate requests to exempt vehicles from taxation in accordance with IRS criteria. If a vehicle is found to be exempt and was previously taxable, identify the employees who are assigned to the newly-exempt vehicles and provide to BCPO Form STD-928, indicating the exemption from taxability and the effective date thereof.
  - (5) Review periodic listings of commonwealth employees with permanently assigned state-provided vehicles and verify the accuracy of the list.
- c. **The Department of General Services** shall maintain, in accordance with applicable records retention and disposition schedules, a list of employees to whom vehicles have been permanently assigned. The list shall include employee's name and agency. For control employees, the list shall also include the date the vehicle was first made available for use, the FMV when the vehicle was first made available for use, the FMV as of January 1, following the fourth full calendar year after the vehicle was first made available for use (if applicable), and the FMV for subsequent four-year periods (if applicable).

**d. Office of the Budget, Office of Comptroller Operations, Bureau of Commonwealth Payroll Operations (BCPO) shall:**

- (1) For a regular employee using Form STD-928, enter the employee information into the SAP Human Resource and Payroll Module. The system will generate the amount in accordance with the procedures in section 7.a. of this directive.
- (2) For a control employee using Form STD-928 and Form STD-554, calculate the noncash compensation. Enter the employee information into the SAP Human Resource and Payroll Module.

**Note:** Reporting for control employees is November 1 through October 31 of each tax year.

- (3) Enter the end date into the SAP Human Resource and Payroll Module once a Form STD-928 has been received with the stop vehicle notice that an employee no longer has the use of a state-provided vehicle.
- (4) Remit all employee and employer shares of Social Security and Medicare as well as federal tax, if withheld, to the IRS as required. Remit all Unemployment Compensation tax to the Department of Labor and Industry, Office of Unemployment Compensation Benefits.
- (5) Report on each affected employee's IRS Form W-2, Wage and Tax Statement (IRS Form W-2) the total noncash compensation for the calendar year. This amount will be included in federal taxable wages and Social Security and Medicare taxable wages. The Social Security tax, Medicare tax, and federal tax (if withheld) that was deducted will also be included on the IRS Form W-2.
- (6) Provide a periodic report of commonwealth employees with permanently assigned state-provided vehicles. Also, provide a list of employees who earn more than the Federal Government Executive Level V, including overtime.
- (7) Review requests and make determinations regarding the exemption of certain vehicles from taxation in accordance with IRS criteria. Notify the requesting agency of the final determination and update the published list of tax exempt vehicles as needed.

**e. Office of Administration.**

**(1) Office for Human Resources Management, Bureau of Classification and Compensation shall:**

- (a) Review requests for employee exemption based on job classification or duties.
- (b) Notify the BCPO Pay Processing Division of all changes to the list of exempt law enforcement classifications.

- (2) **Office for Human Resources Management, Bureau of Employee Benefits and Services** shall provide the annual leave factor to BCPO at the end of each calendar year for the next year for the calculation for the noncash compensation deduction determined for the commuting valuation method.
- (3) **Office for Information Technology, Bureau of Integrated Enterprise System (IES)** shall update the SAP Human Resource and Payroll Module with the new leave factor provided by BCPO for the upcoming tax year.

## 7. PROCEDURES.

### a. Procedures for Regular Employees.

- (1) **Procedures to determine noncash compensation per the IRS commuting rule.**

#### (a) Agency.

- 1** Completes Form STD-928 for the affected employees.
- 2** Sends the completed Form STD-928 to [RA-BCPOStateVehicles@pa.gov](mailto:RA-BCPOStateVehicles@pa.gov) and DGS (Forms completed by the Department of Transportation shall be sent to BCPO only).

#### (b) **Office of the Budget, Office of Comptroller Operations, Bureau of Commonwealth Payroll Operations.** Starts the biweekly noncash compensation adjustment in SAP by entering the required information via SAP transaction code PA30-IT0014 for a recurring payment/deduction:

- 1** Enters the start date, which is equal to the effective start date on Form STD-928. (If start date is for a prior year, SAP will calculate retroactivity to the prior year, but the taxability will be realized in the current year. There will be no IRS Form W-2c, Corrected Wage & Tax Statement (IRS Form W-2c)).
- 2** Enters Wage Type 5800–Taxable Vehicles–Noncontrol Employee–No FWT.
- 3** At the end of each year, determines the biweekly commuting value for the following year.
  - a** Contacts the Office of Administration, Office for Human Resources Management, Bureau of Labor Relations for the benefit factor to be used in the following year.
  - b** Calculates the biweekly commuting value as follows:  
 $\$3.00 \text{ per day} \times 10 \text{ days} = \$30.00$   
 $\$30.00 \times \text{benefit factor (XX\%)} = \$XX.XX$   
 $\$30.00 - \$XX.XX = \$XX.XX \text{ (biweekly noncash compensation)}$

- c Provides the biweekly amount to IES, who updates the SAP system with the revised value. The biweekly commuting value for the current year can be found in the Rates Related to State-Provided Vehicles.

**(2) Procedure to stop the processing of the taxable income and deduction when a regular employee no longer has the use of a state-provided vehicle.**

**(a) Agency.**

**1** Completes Form STD-928 to stop taxability, indicating the effective date.

**2** Sends the completed Form STD-928 to [RA-BCPOStateVehicles@pa.gov](mailto:RA-BCPOStateVehicles@pa.gov) and DGS (Forms completed by the Department of Transportation shall be sent to BCPO only).

**(b) Office of the Budget, Office of Comptroller Operations, Bureau of Commonwealth Payroll Operations.** Changes the end date for the Wage Type 5800 via SAP transaction code PA30-IT0014 in order to reflect the stop date provided by the agency.

**(3) Procedures to correct noncash compensation for regular employees subsequently identified as exempt.**

**(a) Office of Administration, Office for Human Resources Management, Bureau of Classification and Compensation.** Notifies BCPO of changes to the list of exempt law enforcement classifications.

**(b) Office of the Budget, Office of Comptroller Operations, Bureau of Commonwealth Payroll Operations.**

**1** Periodically reviews and updates the list of tax-exempt vehicles.

**2** Updates the published list of tax-exempt vehicles and list of exempt law enforcement classifications at the Office of the Budget's Payroll Operations [Tax Information page](#).

**(c) Agency.**

**1** Completes Form STD-928 to stop taxability, indicating the effective date.

**2** Send the completed Form STD-928 to [RA-BCPOStateVehicles@pa.gov](mailto:RA-BCPOStateVehicles@pa.gov) and DGS (Forms completed by the Department of Transportation shall be sent to BCPO only).



- (d) **Office of the Budget, Office of Comptroller Operations, Bureau of Commonwealth Payroll Operations.** Using SAP transaction code PA30-IT0014, removes Wage Type 5800. The system generates a refund to the exempt employee. If the refund is related to a prior year, there will be no IRS Form W-2c.

**b. Procedures for Control Employees.**

**(1) Procedures to determine noncash compensation per the IRS.**

**(a) Agency.**

- 1** Completes Form STD-928 for the affected control employees.  
**Note:** Submits a revised Form STD-928 for any significant changes in the breakdown of business and commuter miles, change in option, or a change of vehicle assignment.
- 2** Sends the completed Form STD-928 to [RA-BCPOStateVehicles@pa.gov](mailto:RA-BCPOStateVehicles@pa.gov) and DGS (Forms completed by the Department of Transportation shall be sent to BCPO only).
- 3** Sends control employees' Form STD-554 to [RA-BCPOStateVehicles@pa.gov](mailto:RA-BCPOStateVehicles@pa.gov) and DGS within 15 days after the end of the month.

**(b) Office of the Budget, Office of Comptroller Operations, Bureau of Commonwealth Payroll Operations.**

- 1** Receives Form STD-928.
- 2** Determines the estimated biweekly noncash compensation using the estimated commuter miles reported on Form STD-928 using the Cents-per-mile Rule or Lease Value Rule.
- 3** Enters required information via SAP transaction code PA30-IT0014 for a recurring payment/deduction:
  - a** Enters the start date that is equal to the effective start date on Form STD-928. (If start date is for a prior year, SAP will calculate retroactivity to the prior year, but the taxability will be realized in the current year. There will be no IRS Form W-2c.).
  - b** Enters Wage Type 5801–Taxable Vehicles for control employees who elect to have federal withholding or Wage Type 5802 for control employees who elect not to have federal withholding.
  - c** Enters the biweekly noncash compensation.

- 4** Compares actual commuter miles with estimated commuter miles. If a significant difference exists, recalculates the biweekly noncash compensation and changes the amount of biweekly noncash compensation using SAP transaction code PA30-IT0014.
- 5** At calendar year-end, adjusts the employee's records for the difference between calculations using actual commuter mileage reported for the period November 1 through October 31 and the total amount of noncash compensation accumulated through biweekly processing.
- 6** Using Form STD-554, adjusts the estimate for the succeeding calendar year based on actual commuter mileage reported unless superseded by a revised estimate.

**(2) Procedure to stop the use of a state-provided vehicle.**

**(a) Agency.**

- 1** Completes Form STD-928 to stop taxability, indicating the effective stop date.
- 2** Obtains the final Form STD-554 from the control employee.
- 3** Sends the completed Form STD-928 and Form STD-554 to [RA-BCPOStateVehicles@pa.gov](mailto:RA-BCPOStateVehicles@pa.gov) and DGS.

**(b) Department of General Services.** Updates the list of employees to whom vehicles have been permanently assigned.

**(c) Office of the Budget, Office of Comptroller Operations, Bureau of Commonwealth Payroll Operations.**

- 1** Since the processing of taxability of the commuter use for control employees is on a two-month delay allowed by the IRS, calculates the final noncash compensation for the employee's commuter use of the state-provided vehicle based on Form STD-554A supplied by the agency.
- 2** Based on the calculation for the final deduction, processes one final deduction via SAP transaction code PA30, IT0014 for Wage Type 5801 or 5802. Also change the end date to reflect the effective stop date provided by the agency.

**This directive replaces, in its entirety, *Management Directive 315.20*, dated May 1, 2013.**