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June 10, 1985

MEMORANDUM 1985-16

TO: Heads of Departments and Agencies

FROM: Hideo Murakami, Comptroller

SUBJECT: Taxability of Personal Use of State Automobiles

The Tax Reform Act of 1984 requires the reporting, as taxable income to the employee, any personal use of an employer-provided automobile. The Act considers the use of a car for commuting to and from work as personal use; thus the value of such use is treated as a non-cash fringe benefit, and reportable as taxable income to the employee. The effective date of the Act is January 1, 1985.

The temporary Regulations issued by the Internal Revenue Service allow the use of a special rule in computing the taxable amount for commuting. Under the special rule, commuting is valued at a flat $3.00 per day, for a maximum of $678.00* per year, or $56.50 per month. This special rule will be used to determine the taxable amount of the fringe benefit to employees who take State automobiles home.

The Tax Reform Act requires that social security (FICA) tax be withheld, based on the taxable amount of the fringe benefit. The law grants the employer (in this case, the State) the right to elect not to withhold income taxes, provided notice of such election is given to the employees. This memorandum will serve as the State's notification of its election not to withhold income taxes. Accordingly, please furnish your employees who take State automobiles home with a copy of this memorandum. However, employees who wish to have additional income taxes withheld may submit amended forms W-4 and HW-4 under existing procedures of the payroll system.

For the first 2 quarters of 1985 (January - March, and April - June, 1985), the Act allows the social security tax to be withheld in July 1985. Accordingly, the tax for the first 2 quarters will be withheld on the July 31 payroll. For subsequent payrolls, the social security tax will be withheld in each semi-monthly payroll.

Therefore, to effect the requirements of the Tax Reform Act, please follow these instructions -

(1) For the period 1-1-85 through 6-30-85: Complete and forward to Central Payroll, with your Payroll Change Schedule for the pay period ending 7-31-85, the attached schedule describing State automobiles taken home by State employees in your department or agency, and enter the calculated dollar amounts covering that 6-months period in the Wages-in-Kind column of the Payroll Change Schedule.

(2) For each payroll period beginning 7-1-85: Enter $28.25 (1/2 of $56.50) in the Wages-in-Kind column of the Payroll Change Schedule. Once entered, the amount will continue to be pre-printed on future Payroll Change Schedules, but departments and agencies remain responsible for verifying the continuing correctness of the amount each pay period (in the same manner departments and agencies are responsible for the continuing correctness of other pre-printed amounts.)

(3) Whenever a calculation is necessary for adjusting the fringe benefit due to auto use during only part of a pay period, calculate the partial amount by multiplying $3.00 times the number of actual working days in the pay period that the employee took home a State automobile. If, due to non-uniform number of working days in a pay period, the calculated amount is more than $28.25 (e.g., $30.00), enter the regular amount for a full pay period -- $28.25.

Thank you for your cooperation.

HIDEO MURAKAMI
Comptroller

* $678.00 commuting value/yr
÷ $3.00 commuting value/da
226 chargeable commuter days

52 wks/yr
× 5 working da/wk
260 working da/yr
(13) holidays/yr
(21) vac. days/yr
226 chargeable commuter days

State Automobiles Taken Home By State Employees

Department _____ Payroll No. _____

		No. of Workdays Auto Taken Home*					
Name	Soc. Sec. No.	Jan.	Feb.	Mar.	Apr.	May	June

The amount calculated for each employee is to be entered in the Wages-in-Kind column of the Payroll Change Schedule for the pay period ending 7-31-85.

*If State Automobile was taken home all workdays of a month, place "X" in the monthly column to indicate the full monthly amount of $56.50 is to be calculated for that month.

prepared + submitted 6/25/85

State Automobiles Taken Home By State Employees

Department Dept of Transportation, Administration Payroll No. _____

Name	Soc. Sec. No.	No. of Workdays Auto Taken Home*					
		Jan.	Feb.	Mar.	Apr.	May	June
HO, Walter	576-28-9245	X	X	X	X	X	X
YAMASAKI, Wayne	576-38-7475	X	X	X	X	X	X

The amount calculated for each employee is to be entered in the Wages-in-Kind column of the Payroll Change Schedule for the pay period ending 7-31-85.

*If State Automobile was taken home all workdays of a month, place "X" in the monthly column to indicate the full monthly amount of $56.50 is to be calculated for that month.