



HERBEIN+COMPANY, INC.

CERTIFIED PUBLIC ACCOUNTANTS

Members of PKF North America, Pennsylvania Institute of CPAs,
American Institute of Certified Public Accountants Div. of CPA Firms/Private Practice Sections
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Dear Clients and Friends:

The purpose of this letter is to address the non-cash fringe benefit computation associated with the personal use of company owned or leased automobiles by an employee. "Written Policy Statements" are enclosed for situations where employee personal use is prohibited or limited to commuting.

Generally, the most common method by which the Internal Revenue Service and our clients value this non-cash fringe benefit is through the use of the Annual Lease Value Method ("ALV Method"). The ALV Method is used to compute the value of the fringe benefit by using a table which is prescribed by the Internal Revenue Service and uses the fair market value of the automobile as the basis for the computation.

The actual Annual Lease Value Method is detailed on the enclosed form entitled, "Determining the Fringe Benefit of an Employer-Provided Vehicle." For those employers calculating their own employee fringe benefit values, this form should be utilized and maintained in the Company's permanent records.

Note that if the ALV Method has been used in prior years, and an automobile has been used for more than four-full years, its fair market value must be re-determined at the start of the fifth year to calculate the fringe benefit associated with its use. Thus, all automobiles that have been in use since January 1, 2007 will have to be re-valued using the automobile's fair market value on January 1, 2011. The "Annual Lease Value Table" is enclosed for your reference.

The "Vehicle Information Summary – Non-Cash Fringe Benefit Computation" Form must be completed by the employee. The form is used to determine the actual business use of the automobile. When completing this form, the mileage is that which was accumulated during the calendar year.

The value of the fringe benefit must be included in the employee's federal Form W-2 and taxable income for 2011. This amount is not subject to Pennsylvania state taxes in 2011.

With respect to employee federal income tax withholdings on the fringe benefit value, we suggest that the employer elect not to withhold these taxes. A memorandum titled "Employer Notification of Elections Concerning the Personal Use of Employer-Provided Automobiles" is enclosed for distribution and completion by the employee. This form should be signed by each employee on an annual basis. The value of the fringe benefit is subject to FICA and Medicare tax and appropriate withholding will be necessary prior to December 31, 2011.

The forms referred to above must be completed as instructed; there are no exceptions. If you would like us to perform the calculations, please provide us with the necessary information to complete the forms for each eligible employee. If we perform the calculations, we will then maintain these forms as part of your permanent tax files.

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Reading, PA + Pittsburgh, PA + Greensburg, PA



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When properly completed, the information listed on the enclosed forms will provide the employer with the ability to only report as a fringe benefit (on employee's W-2) the value of the personal use of an automobile. If an employer does not have sufficient information to calculate the personal use portion, the entire value (both business and personal use) is reported on the Form W-2.

If the business and personal use value is reported on the Form W-2, the employee may deduct his/her business use of the automobile on his/her personal tax return, but only as a miscellaneous itemized deduction. Miscellaneous itemized deductions must first be reduced by 2% of adjusted gross income then added to all other itemized deductions. The employee may only receive a benefit from the deduction if all of his/her itemized deductions exceed the standard deduction. Thus, it is in the employee's best interest to make certain that only the personal use portion is reported on the Form W-2.

If you have any questions regarding completion of the enclosed forms, or the calculation of the benefit, please do not hesitate to contact our office.

Sincerely,

Herbein + Company, Inc.
Enclosures

HERBEIN + COMPANY, INC.

Reading, PA + Pittsburgh, PA + Greensburg, PA



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DETERMINING THE FRINGE BENEFIT OF AN EMPLOYER-PROVIDED VEHICLE (For automobiles, trucks, RVs, airplanes, boats, etc. - owned or leased)

Employee Name: _____ SSN: _____

Description of Vehicle: _____

Commuting Rule: This method is only available if the employer prohibits all personal use, except commuting, and has a written policy statement in effect to support such a position. The employee cannot be a "control person."

- | | |
|--|----------------------------------|
| 1. Number of one-way commuting trips. | _____ |
| 2. Multiply line 1 by <u>\$1.50</u> | <u> x 1.50</u> |
| 3. Value of fringe benefits (line 1 x line 2). | _____ |

Cents-Per-Mile Rule: You can use the cents-per-mile rule if either of the following requirements is met:

- At least 50% of the vehicle's total annual mileage is for your trade or business, OR
- The vehicle is actually driven at least 10,000 miles during the year by any combination of employees.

However, you cannot use this method for an automobile if the fair market value, when you first make it available to any employee for personal use, is greater than \$15,300 for a passenger automobile and \$16,200 for a truck or van. An employer with a fleet of 20 or more automobiles may use a fleet-average value. The maximum value for a fleet's passenger automobile is \$20,300 and for a truck or van it is \$21,200.

The value of the fringe benefit is determined by multiplying the standard mileage rate (see chart below) by the total miles the employee drives the vehicle for personal purposes.

- | | <u>1/1/11 -</u>
<u>6/30/11</u> | <u>7/1/11 -</u>
<u>12/31/11</u> | <u>2011</u>
<u>Total</u> |
|---|-----------------------------------|------------------------------------|-----------------------------|
| 1. Number of personal use miles driven during the year. | _____ | _____ | _____ |
| 2. Multiply line 1 of applicable IRS rule. | <u> x .51</u> | <u> x .555</u> | _____ |
| 3. Value of fringe benefit (line 1 x line 2). | _____ | _____ | _____ |

If cents-per-mile is used for a particular vehicle, it must be used for as long as the vehicle is owned by the employer and must be selected in the year the vehicle is first used for personal purposes.

The vehicle must be used primarily by an employee. The rate includes the fair market value of maintenance and insurance for the vehicle. For miles driven in the United States, its territories and possessions, Canada, and Mexico, the cents-per-mile rate includes the value of fuel provided. If fuel is not provided by the employer, the cents-per-mile rate may be reduced by no more than 5.5 cents. Once the vehicle cents-per-mile rule has been adopted, it must be used for all subsequent years in which the vehicle qualifies for use of the rule.



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Automobile Lease Value: This method is utilized when both the commuting rule and cents-per-mile rule are not available.

1. Fair market value (actual cost) of the vehicle at the time the automobile is first made available to the employee. If leased, either the blue book value or manufacturer's suggested retail price less 8% could be used. To be used for four-full years. \$ _____

2. Annual lease value from IRS table.

Year 1	Year 2	Year 3	Year 4	
				= _____

3. Personal use percentage of vehicle. _____ %

4. Value of fringe benefit except for fuel (line 2 x line 3). _____

5. Amount for fuel (5.5 cents x personal use miles _____). _____

6. Value of fringe benefits (line 4 + line 5). \$ _____



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EMPLOYER NOTIFICATION OF ELECTIONS CONCERNING THE PERSONAL USE OF EMPLOYER-PROVIDED AUTOMOBILES (EMPLOYER STATEMENT)

MEMO: Employer notification of elections concerning the personal use of employer-provided automobiles

TO: Employee

FROM: Management

Vehicle Description: _____

Management has provided you with the above vehicle and has made the following election relative to such vehicle.

The personal use of an employer-provided vehicle is a “taxable fringe benefit.” Accordingly, management will calculate such value using the method that results in the lowest taxable fringe benefit value to the employee. To assist management in this calculation, you are required to complete the “Vehicle Information Summary” sheet, which is also attached, and maintain adequate records to substantiate such information. If the required information is not provided, management will have to value the benefit using the Fair Market Value Method, which is usually higher. The value of the benefit will be included in your compensation. Although this compensation is subject to Medicare, FICA and federal income tax withholding, management has elected not to withhold for federal income tax purposes. Therefore, you may want to adjust your withholding allowance (Form W-4) for any additional income tax related to this taxable fringe benefit.

Employee Notification:

I have read the above notification and understand its implications.

Employee Signature

Date



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VEHICLE INFORMATION SUMMARY

NON-CASH FRINGE BENEFIT COMPUTATION

FOR THE PERIOD ENDED: _____

Employee Name: _____

Company Name: _____

Description of Vehicle: _____

Year

Make

Model

Date vehicle placed in service: _____

Vehicle I.D. Number: _____

1. Total number of miles driven during the year. _____
2. Percentage of personal use claimed. _____
3. Was the vehicle used for commuting? Yes__ No__
4. If answer to question #3 is yes, what is the total commuting mileage? _____
5. Was the vehicle available for personal use in off duty hours? Yes__ No__
6. Was another vehicle available for personal use? Yes__ No__
7. Do adequate records or sufficient evidence exist to justify the deduction for business/investment use? Yes__ No__
8. If the answer to question #7 is yes, are the records or evidence written? Yes__ No__
9. Was the vehicle used by a person who owns more than 1% of the outstanding shares of stock? Yes__ No__
10. Was the vehicle used by a relative of such shareholder? Yes__ No__

Beginning Odometer: _____

Ending Odometer: _____

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Total Mileage: _____

Business Miles Driven: _____ Percentage of Business Use: _____

Personal Miles Driven: _____

Was vehicle out of service for more than 30 days? Yes ___ No ___

Date vehicle placed in service: _____

Number of days in use: _____

Non-reimbursed expenses: _____

Reimbursed expenses: _____

I HEREBY ATTEST THAT THE INFORMATION LISTED ABOVE IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE.

Employee Signature

Date



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WRITTEN POLICY STATEMENT PROHIBITING PERSONAL USE OF VEHICLES

MEMO: Personal Use of Vehicles

TO: Employees

FROM: Management

Vehicle Description: _____

Management has provided you with the above vehicle and has adopted the following policy relating to such vehicle.

All personal use of employer-provided vehicles is prohibited, except for de minimis, such as a stop for lunch between two business deliveries.

Management will include a taxable fringe benefit in the compensation of any employee who violates the above policy.

EMPLOYEE CONSENT:

Having read the above policy statement and understanding its implications, I hereby consent to follow the policy.

Employee Signature

Date



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WRITTEN POLICY STATEMENT PROHIBITING PERSONAL USE OF VEHICLES OTHER THAN COMMUTING

MEMO: Personal Use of Vehicle

TO: Employees

FROM: Management

Vehicle Description: _____

Management has provided you with the above vehicle, requiring that you commute in it, and has adopted the following relating to such policy.

All personal use of employer-provided vehicles is prohibited, except for commuting and de minimis use, such as a stop for lunch between two business deliveries.

Management will include in your compensation a taxable fringe benefit in the amount of \$1.50 for each one-way commuting trip. Therefore, employees need only provide information relating to the number of commuting trips.

Employees who violate the above policy will be required to substantiate all vehicle use (including business, personal and commuting). Management will use this substantiation to compute the taxable fringe benefit under either the cents-per-mile or annual lease value rule, whichever is applicable. Either method will probably produce a higher taxable fringe benefit.

EMPLOYEE CONSENT:

Having read the above policy statement and understanding its implications, I hereby consent to follow the policy.

Employee Signature

Date



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ANNUAL LEASE VALUE

Automobile Market Value

Annual Lease Value

\$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

For vehicles having a fair value in excess of \$59,999, the Annual Lease Value is equal to: (.25 x the market value of the automobile) + \$500. Each annual lease value in the table includes the value of maintenance and insurance for the automobile. The annual lease value does not include the value of fuel provided to an employee for personal use. You must include the value of the fuel separately in the employee's wages at FMV or at 5.5 cents per mile for all miles driven in the United States. The fuel value is the amount charged to the employer or cost reimbursed.

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