

Vehicle Reimbursement:

A Complete Guide to IRS Approved Methods

Vehicle reimbursement, travel and fleet expenses are often the second largest expense. To manage this, many companies seek an accurate, reliable, and comprehensive plan that identifies the detailed costs specific to each driver for employee-owned vehicles.

In this guide, we compare the following methods:

- >> Car Allowance
- >> Cents Per Mile – IRS Standard Mileage Rate
- >> Cents Per Mile – Custom Rate
- >> FAVR Plan (Fixed and Variable Rate)
- >> Modified FAVR Accountable Plan

Car Allowance Plans

In this approach, the company determines a flat monthly taxable reimbursement amount and pays the same rate for all drivers in all locations.

Benefits	Challenges
<ul style="list-style-type: none"> • Low implementation complexity and cost. • Simple to use. • Predictable cash flow for company. • Allows employee driver freedom to choose vehicles and options. 	<ul style="list-style-type: none"> • Does not establish appropriate guidelines for image, reliability, safety or liability. • Inequitable since the same reimbursement level is applied to both high and low mileage, and high-cost and low-cost geographic regions. Additionally, it is always taxable with FICA and income tax deductions becoming an employee concern. • The tax waste from FICA alone usually pays for a professionally managed plan. • Proper policy enforcement will require additional company administrative resources.

Cents Per Mile - IRS Standard Mileage Rate

In this approach, the company reimburses for vehicle use based on the “Safe Harbor” IRS federal rate. The federal rate changes each year, and is based on the cost prevailing from the prior year. That being said, it is not an accurate benchmark for current cost.

Benefits	Challenges
<ul style="list-style-type: none"> • Lowest implementation complexity and cost. • Simple calculation (business miles x IRS rate). • IRS calculates and provides the per mile rate. 	<ul style="list-style-type: none"> • Over-reimburses high mileage drivers, and under reimburses low mileage drivers. • One rate for all role-based segments (e.g. executive, managers, sales, and service). • Creates unpredictable cash flows due to the timing of the rate availability.

Cents Per Mile – Custom Rate

In this approach, the company reimburses for vehicle use by developing a rate per mile based on actual costs.

Benefits	Challenges
<ul style="list-style-type: none"> • Low implementation complexity and cost. • Simple calculation (business miles x calculated rate). • Increased accuracy in relation to current cost. 	<ul style="list-style-type: none"> • A significant amount of data is required to determine a rate but a vehicle reimbursement consultant can easily calculate the necessary rates. • Over-reimburses high mileage drivers, and under reimburses low mileage drivers.

FAVR Plan (Fixed and Variable Rate)

In this method, actual costs are identified and provide an accurate plan for all driver segments and roles. Using IRS approved methods, drivers are reimbursed based on localized base vehicle costs that are regularly updated.

Benefits	Challenges
<ul style="list-style-type: none">• Predictable cash flow for both the company and employee while maintaining business-use sensitivity since employees are reimbursed based on actual business miles driven.• Can be customized per driver segment to include extra maintenance or fuel usage based on driver conditions.• Geographically sensitive.• IRS qualified FAVR non-taxable plan that eliminates tax waste while providing a cost-effective plan.• Company policy controls the vehicle selection (age and value), increasing compliance with appropriate guidelines for image, reliability, safety and liability.• Since insurance is provided by the driver, the risk and liability exposure is limited to business days and usage.	<ul style="list-style-type: none">• Implementation complexity when self-implemented; a professional FAVR consultant can help with the implementation, transition, and ongoing management.• Insurance and Driver's License verification can be time consuming. Some programs offer add-ons to ease this burden.• Requires a significant number of data elements and calculations to determine a rate which is generally provided by a FAVR professional.

Modified FAVR Accountable Plan

This is a modified version of a Fixed and Variable Rate plan that increases eligibility for participation in the plan. Like a FAVR plan, expert help and a FAVR database for rates eases implementation.

Benefits	Challenges
<ul style="list-style-type: none">• Predictable cash flow for both the company and employee while maintaining business-use sensitivity since employees are reimbursed based on actual business miles driven.• Can be customized per driver segment to include extra maintenance or fuel usage based on driver conditions.• Geographically sensitive.• Non-taxable or partially taxable if conditions are met.• Company policy controls the vehicle selection (age and value), increasing compliance with appropriate guidelines for image, reliability, safety and liability.• Expands plan eligibility to executives, control employees, and other drivers that would not otherwise be eligible while being fair and equitable.	<ul style="list-style-type: none">• Even greater complexity than FAVR when self-implemented; a professional FAVR consultant can help with the implementation, transition, and ongoing management.• Insurance and Driver's License verification can be time consuming. Some programs offer add-ons to ease this burden.• Requires a significant number of data elements and calculations to determine a rate which is generally provided by a FAVR professional.

The Bottom Line

Considerations for how to best meet your company's transportation needs:

Company Considerations

A FAVR Allowance and reimbursement program will reduce your direct costs of vehicle operation and simplify the budgeting for usual fleet expenses, and introduce controls over what vehicles employees choose or how employees spend their reimbursement allocation and insure the vehicle. Administration of a non-taxable FAVR Plan program can be easy and effective with proper management and the right partner.

Employee Considerations

A FAVR Allowance and reimbursement offers employees the freedom to choose their own vehicle and have that vehicle available at all times for personal use. A properly developed geographically sensitive program can avoid a financial burden on employees by including maintenance, insurance, vehicle payments and through used vehicle options. Proper controls, a comprehensive database (for individual custom rates), and effective management software will ease the transition.

About AutoReimbursement.com:

At AutoReimbursement.com, we create innovative company auto expense management programs utilizing IRS approved FAVR programs. Most companies realize reduction of risk, cost (tax waste) and increased audit control through the first 100% mobile cloud software for FAVR plans.

1. Our reimbursement methods are based on TCO (Total Cost of Ownership).
2. We create individual, role-based employee plans based on our extensive Real Cost database covering 4.3 million combinations:
 - a. Role-based reimbursement individualizes plans for managers, sales, service, and other roles custom to your company. As part of your assessment, we advise on how to best structure the plan for each role.
 - b. Geographic expense models account for the differences in rates based on location (e.g. rates in Des Moines, IA are much different from New York, NY).
3. Plans designed to be Accurate, Reliable, and Comprehensive.
4. We enjoy being the first all mobile solution in the industry; both Drivers and Administrators can interact with their plan from any device.

About the author:

Jim Doherty has developed FAVR plans with many highly visible companies large and small, and has routinely documented significant program savings, heightened driver acceptance and satisfaction, and reduced fleet liability with greater control and administrative efficiency.

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