for Tax Season

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employers must also consider the various tax implications associated with their

reducing the amount employees take home. An example of this is a flat car allowance. This program is simple for employers to implement, but is subject to income taxes. Other businesses may be tempted to offer programs such as a cents-per-mile or fixed and variable reimbursements instead, which can be non-taxable. But qualifying for tax-free programs require knowledge of requirements and proper program oversight , complicating the administrative process for employers.

Both taxable and tax-exempt reimbursement programs come with pros and cons. Which program a business chooses to use will depend on their individual needs and employee driving habits. With tax season upon us, now is the time for employers to evaluate their current vehicle program and begin strategizing a new plan if necessary. Here are three of the most common reimbursement programs along with their tax-specific implications:

1. **Flat Allowances** – While a car allowance is the most straightforward program of the three, it also poses the greatest tax burden to employers and employees. Business drivers receive a fixed dollar amount added to their monthly paycheck – an easy to understand model that, on the surface, looks like a fair way to compensate drivers. But allowances are considered part of an employee's income and are subject to payroll taxes, greatly reducing a participant's earnings. For drivers to net a certain dollar amount, businesses would need to tack on a significant cushion of up to 30 percent to account for dollars lost to taxes. In a scenario where 100 employees are given $800 monthly allowances and drive an average of 15,000 miles per year, the employees on the program would accrue $364,800 in annual tax waste. If your business drivers are geographically disbursed, a flat allowance program is not fair. For example, the cost differential on a standard insurance policy between Detroit and Atlanta is $4,000. Because of the low cost of insurance, the employee in Atlanta may be over-reimbursed for the

cost to own and operate their vehicle for business while the employee in Detroit

seven years. While you think the responsibility of accurate mileage logs falls on the employee, the "audit trail" may travel upward from the individual to their employer—exposing the organization to more risk. Not only do manual mileage logs expose a company to an audit risk, they drive up reimbursements due to rounding, estimating or using online map tools. Employers can save an average of 15% on their CPM program just by implementing mileage capture technology. Despite their potential to be tax-advantaged, CPM programs can also dramatically under- or over-reimburse participants. The IRS safe harbor rate, in particular, is based on averages and does not accurately reflect the cost of driving based on geographical location. CPM programs can leave the occasional business driver in expensive markets under-reimbursed while significantly over-reimbursing high mileage drivers.

3. **Fixed and Variable Rate (FAVR)** – Considered a "best of breed" option, FAVR programs reimburse drivers for the fixed costs of operating a vehicle (including insurance, taxes and depreciation) and variable, location-specific costs such as fuel and maintenance expenses. Not only are FAVR programs adaptable to individual client requirements, they can also be tax-free to employers and drivers. A FAVR program offers the same benefits as an allowance plan, but at a 30-40 percent lower expense ratio. Businesses can save up to $3,000 per participant under FAVR, while ensuring each driver's reimbursements accurately reflect their regional driving costs. In order to count as a tax-advantaged program, employers must meet IRS requirements such as enrolling a minimum of five participants who drive at least 5,000 business miles each year.

When it comes to business vehicle reimbursement programs, a universal plan will not work for every organization. Employers must first understand their unique business driving needs in order to identify the appropriate reimbursement program (or programs) and maximize their tax savings. As businesses prepare for tax season,

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