

Tax Tip

Week of March 9, 2009

Standby Charge Calculation on older Vehicles

If an employee drives a company owned vehicle, the standby charge is calculated on the following formula:

Original cost of vehicle X 2% per month

Thus, the base for the standby charge is the original cost. If a four year old vehicle cost \$70,000, but is currently worth \$30,000, the standby charge continues at \$70,000 X 24% = \$16,800. If an identical vehicle was purchased for \$30,000, the annual standby charge would be \$7,200 (\$30,000 X 24%.) This can be problematic if a used vehicle is transferred to another employee. The individual that acquired the vehicle is taxed on original cost and not the fair value of the vehicle when he or she obtained possession.

In order to reduce the employee's taxable benefit for the use of older vehicles, consideration should be given to replacing the current vehicle. This can be achieved by selling the current vehicle and purchasing an identical vehicle or selling the vehicle to a leasing company and then leasing the same vehicle. These tactics would result in the taxable benefit being based on the current value (either leased or owned) rather than original cost.