August 19, 2020

The Honorable Richard E. Neal
Chairman
House Ways and Means Committee
Washington, DC 20515

The Honorable Kevin Brady
Ranking Member
House Ways and Means Committee
Washington, DC 20515

Dear Chairman Neal and Ranking Member Brady:

NAFA Fleet Management Association submitted the attached request to the IRS Commissioner on August 12, 2020. I am writing today to ask for your assistance in urging the Commissioner to act promptly on this request.

NAFA is seeking a waiver of certain IRS rules that govern the taxable benefit of personal use of employer-provided vehicles. This is an urgent matter relating to the unintended tax consequences for tens of thousands of employees due to pandemic-related changes in the work environment.

NAFA has more than 2,000 individual fleet manager Members who are employed by corporations, universities, government agencies (federal, state, municipal), utilities, and any other entity that uses vehicles in its normal conduct of business or needs to move people or goods from one place to another. NAFA Members are in control of more than 4.2 million vehicles and manage assets in excess of $92 billion. These vehicles travel more than 84-billion miles each year.

Among a fleet manager’s responsibilities is compliance with IRS rules with regard to an employee’s personal use of a company vehicle. “Personal use” must be tracked and the value of that use reflected in the employee’s taxable income. To facilitate this accounting, the IRS has adopted several “safe harbor” valuation methods.

The most commonly used method is the Annual Lease Value (ALV), where the annual lease value is provided in a table provided by the IRS. The Annual Lease Value method generally works well under normal circumstances when a company-provided vehicle is used routinely to perform job responsibilities. This includes employees who spend most days in the field to employees who travel between satellite offices to employees who go out on calls throughout the day.
With the pandemic shutdown, many companies suspended business operations, causing business use of the vehicle to drop to zero. For other companies, many employees around the country were told to work from home and conduct virtual meetings rather than face-to-face contacts, again causing business use of company vehicles to grind to a halt. At the same time, although personal use was also limited as employees stayed at home, all use (however minimal) became 100% personal use. In these circumstances, applying the Annual Lease Value methodology becomes punitive to the employee and skews the value of the personal use. The impact is explained in greater detail in the attached letter to the Commissioner.

Since the Annual Lease Value method distorts the taxable benefit, use of an alternative IRS valuation method, called the “cents-per-mile” rule, would yield a far more accurate valuation method in these unusual circumstances created by the pandemic. This alternative rule provides a much fairer result that more closely reflects the actual benefit to the employee. However, IRS rules restrict use of the “cents-per-mile” method, with limits related to the value of the vehicle and restrictions on changing valuation methods for a particular vehicle/employee.

NAFA is asking the Commissioner to provide a temporary waiver of restrictions in 26 CFR 1.61-21(e) that preclude use of the cents-per-mile valuation method to value the personal use of a company vehicle during the pandemic, beginning March 1 and for any month thereafter in 2020 when the employee was prevented from normal business use of the company vehicle because of the pandemic. Such a waiver would be consistent with the President’s Executive Order 13924, ordering agencies to exercise regulatory flexibility to address the economic emergency caused by the pandemic. And it would spare tens of thousands of employees from a punitive tax hit in 2020 for an inflated and illusory “benefit.”

NAFA seeks your help in urging the IRS Commissioner to respond favorably to this request. Please do not hesitate to contact myself or Patrick O’Connor, NAFA’s U.S. Legislative Counsel, at (703) 351-6222 or patoconnor@kentoconnor.com.

Sincerely,

Bill Schankel
Chief Executive Officer

Enclosure