

Installing and Running

System Requirements:

Operating System: Microsoft® Windows® 7, 8 & 10. Please refer to the readme.txt file to see if service packs might be required.

Limitations

This program is comprehensive, but it does have limitations as follows:

- The program does not address the Consistency Rules that come into play when you want to change valuation methods.
- The program does not address Unsafe Conditions Commuting Rules, but it does support the more general Commuting Rule.

Installation

All commands you need to enter will be typed in **bold** type.

Installing To A Single Machine

For the purpose of these instructions, we are assuming that your CD drive is drive D, if it is not, please make the appropriate changes. To install the program to a single machine, use the following steps:

1. Click on the **Start** button.
2. Click on the **Run** menu item.
3. Type **D:SETUP** and press the **ENTER** key.
4. Follow the instructions in the installation program.

Network Installation

Network installations instructions are provided in a separate document to customers that have purchased rights to use this program on additional desktops.

Starting the DTS Employee Auto Compensation Analyzer

The Installation program will create a "Denver Tax Software" Start Group, if it doesn't already exist. The DTS Employee Auto Compensation Analyzer will be placed within this group.

To start the Employee Auto Compensation Analyzer, click on the **Start** button, click on the **Programs** button, click on the **Denver Tax Software** program group, then click on the **Employee Auto Compensation Analyzer** icon.

Computing Employee Auto Compensation

How Personal Use Of The Company Car Is Taxed

The personal use of the company car is generally considered compensation subject to income tax by means of Internal Revenue Code (I.R.C.) §61(a)(1). This single line in the I.R.C. deals with compensation and fringe benefits. That lack of explanation is more than made up for in the 40 or more pages in Treasury Regulation (Reg.) §1.61-21.

In general, the income that is derived from the personal use of an auto is considered compensation that should be included both in W-2 boxes 1 and 12. This is income to the employee, and the employer gets to deduct expenses related to the auto.

In extreme circumstances, the results could be more severe, dividend treatment. If the personal use of the corporate auto is a dividend, the employer would not get a deduction for that amount, but it would still be income to the employee. If the corporation is closely held and there is very little business reasons for the shareholder – employee to be using a company car, the IRS might make an argument for dividend treatment. Dividends would be reported on Form 1099-DIV, not the W-2. Dividend treatment is not a possibility for an auto used by a non – shareholder.

How Much To Put On The W-2

General Rule

The general rule for valuing the auto fringe is to use the fair market value (FMV). According to IRS Publication 535, "value of an employer-provided vehicle is the amount the employee would have to pay a third party to lease the same or a similar vehicle on the same or comparable terms in the same geographic area where the employee uses the vehicle. A comparable lease term would be the amount of time the vehicle is available for the employee's use, such as a one-year period."

The IRS's view of the general rule, leaves some problems for the employer. The first problem is how to determine this lease value. Does this mean that the employer is going to have to pretend to shop for cars to get this value? What proof is required?

The "comparable lease term" also presents a problem. Usually, the shorter the lease term the higher the annual lease amount. The IRS's example of one year would provide a higher tax result than a three year lease.

Fortunately, most employee – vehicle combinations will qualify for the Special Valuation Rules where there are more "safe harbors" and methods that often result in lower tax to the employee than the General Rule.

Special Valuation Rules

Methods

There are four Special Valuation Rule methods that pertain to vehicles as follows:

- Annual Lease Rule
- Vehicle Cents-Per-Mile Rule
- Commuting Rule
- Unsafe Conditions Commuting Rule

The program does not make computations for the Unsafe Conditions Commuting Rule.

Special Valuation Rule Qualification Tests

To use any of the Special Valuation Rules at least one of the following conditions needs to be met. If you wish, the program walks you through these tests on an interactive basis.

1. The employer treats the value of the benefit as wages for reporting purposes by the due date of the return (including extensions) for the tax year the employer provides the benefit.
2. The employee includes the value of the benefit in income by the due date of the return for the year the employee receives the benefit.
3. The employee is not a control employee.
4. The employer demonstrates a good faith effort to treat the benefit correctly for reporting purposes.

Control Employee Test

The Control Employee Tests are used both for the Special Valuation Rule test and the Commuting Rule test. If you wish, the program walks you through these tests on an interactive basis. A control employee of a nongovernment employer is any employee who:

1. Is a board- or shareholder-appointed, confirmed, or elected officer of the employer and whose pay is over a limitation that changes every year,
2. Is a director of the employer,
3. Receives pay over an annually changing limit from the employer, or
4. Owns a 1% or more equity, capital, or profits interest in the employer.

The most current version of the program includes the version year's limits for tests one and three, above.

Special Valuation Rules – Other Issues

There are more issues pertaining to the Special Valuation Rules. For more information, refer to IRS Pub. 535 or Reg. §1.61-21(c).

Commuting Rule

In general, this will result in the best outcome for the employee, but it is the most difficult of the Special Valuation Rules to qualify for. The valuation of compensation using the Commuting Rule is simply \$1.50 for each one-way commute. (If the \$1.50 changes, updates to the program will change accordingly.)

If you choose, the program will step you through the qualification tests for this method. To use the Commuting Rule, the employee and the employer must pass all tests as follows:

1. The employer owns or leases the vehicle and provides it to one or more employees for use in the employer's trade or business.
2. For bona fide noncompensatory business reasons, the employer requires the employee to commute in the vehicle.
3. The employer establishes a written policy under which the employer does not allow the employee to use the vehicle for personal purposes, other than for commuting or de minimis personal use (such as a stop for a personal errand on the way between a business delivery and the employee's home).
4. The employee does not use the vehicle for personal purposes, other than commuting and de minimis personal use.
5. If this vehicle is an automobile, the employee who must use it for commuting is not a control employee.

Cents-Per-Mile Rule

The Cents-Per-Mile Rule is easier to qualify for than the Commuting Rule. In general, it is better for the employee than the Annual Lease Rule, but usually results in more tax to the employee than the Commuting Rule.

The Cents-Per-Mile rate usually changes every year. The rate can be reduced if the employee rather than the employer pays for the fuel. The program includes the most current Cents-Per-Mile and fuel rates that the user has the option to override.

The program will go through the Cents-Per-Mile tests with you, if you prefer. The tests are as follows:

1. The employer reasonably expects the vehicle will be regularly used in the employer's trade or business throughout the calendar year (or for a shorter period during which the employer owns or leases it), or
2. Meets the mileage rule requirements, discussed below.

The mileage rules are as follows:

1. It is driven at least 10,000 miles in that year, and
2. It is used during the year primarily by employees.

Lease Inclusion Amount, see "The Employer's Taxes – Lease Inclusion Amount" on page 8.

Year of lease:

If the business leased the vehicle, click on the year of the lease. For example, if the vehicle was leased in 2003 and this is 2003, click on 1 for the first year of the lease, but if the vehicle was leased in 2002 and this is 2003, click on 2 for the second year of the lease. This input is used to compute the Lease Inclusion Amount. [For more information on the Lease Inclusion Amount, see "The Employer's Taxes – Lease Inclusion Amount" on page 8.](#)

General Rule Inputs Screen

General Rule Input

Fair market value for use of vehicle to employee:

Fair market value for use of vehicle to employee

If you want to show the General Rule amount on the reports, enter the value of an employer-provided vehicle. That value would be the amount the employee would have to pay a third party to lease the same or a similar vehicle on the same or comparable terms in the same geographic area where the employee uses the vehicle. Leave this blank, if you don't want the program to show the General Rule value in the reports.

Tutorial -- Examples

A New Scenario Example

Most of the time it doesn't make much difference whether you use the **TAB** or **ENTER** key. This tutorial will use the **ENTER** key whenever possible. When the tutorial directs you to use the **TAB** key, that would be a situation where using the **TAB** and **ENTER** keys will make the program function differently.

Start the program. If you have any questions on how to do this, see "Starting the DTS Employee Auto Compensation Analyzer" on page 3.

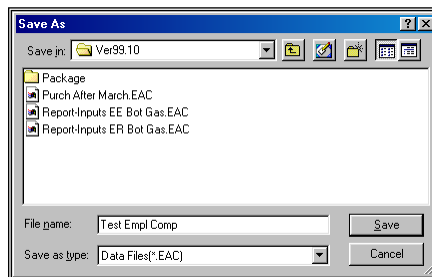
The first screen is the *About Employee Auto Compensation Analyzer* window. Click on the **OK** button.



At the *Startup Options* screen, click on the **New Scenario** button. This will immediately bring up the input screen.



Click on the *Change or set filename* button.



In the *Save As* screen, type **Test Empl Comp** in the *File name* input. Click the **Save** button to return to the input screen. Press the **TAB** key.

For the *Employee* input enter **John Doe** and press the **ENTER** key.

For the *Employer* input enter **ABC, Inc.** and press the **ENTER** key.

For the *Vehicle* input enter **Honda Civic** and press the **ENTER** key.

For the *Additional description* input enter **VIN: 123ABC** and press the **ENTER** key.

For the *Start date* input simply press the **ENTER** key to accept the date that the program is prompting.

Always enter dates in this system using four digits for the year!

For the *Nationally recognized price source FMV* input enter **14900** and press the **ENTER** key.



Click on the **General Rule** tab. On the input screen only "Gene" will appear on that tab. The General Rule inputs will now appear.

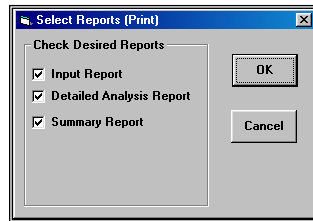
TAB to the *Fair market value for use of vehicle to employee* input. For the *Fair market value for use of vehicle to employee* input enter 4000 and press the **ENTER** key. This is the last input.



Click on the **OK** button. This automatically saves your information. There is no need to take further actions to save the data!



Lets get the results. **Click** on the **Print** button.



In the Select Reports screen you can select the reports that you want to run. If all three reports are not already checked, please check all three boxes now. **Click** on the **OK** button.

The next screen will be the standard Windows print dialog box. **Click** on the **OK** button, and the reports will now print.



You are done. Simply exit the program by **clicking** on the **X** button in the upper right corner.

An Old Scenario Example

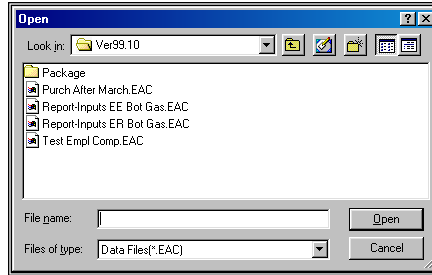
To modify a previously created scenario, we will use the example that we saved in the New Scenario Example. See "A New Scenario Example" on page 21. We will change the number of one-way commuters to 200.

Start the program. If you have any questions on how to do this, see "Starting the DTS Employee Auto Compensation Analyzer" on page 3.

The first screen is the *About Employee Auto Compensation Analyzer* window. **Click** on the **OK** button.



At the *Startup Options* screen, **click** on the **Old Scenario** button. This will immediately bring up the input screen.



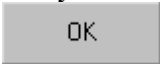
In the **Open** screen, **click** on **Test Empl Comp.EAC** text. **Click** the **Open** button to return to the input screen. Press the **TAB** key.



Click on the **Commuting Rule** tab. The Commuting Rule inputs will now appear.

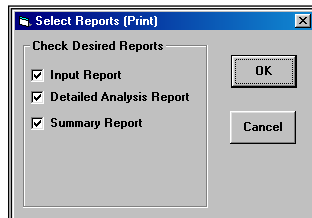


In the **Number of one-way commutes:**

input **click** on the 300. Type 200 and **click** on the **OK** button, , that will save the revised scenario.



Lets get the results. **Click** on the **Print** button.



In the Select Reports screen you can select the reports that you want to run. If all three reports are not already checked, please check all three boxes now. **Click** on the **OK** button.


The next screen will be the standard Windows print dialog box. **Click** on the **OK** button, and the reports will print.



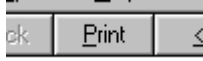
You are done. Simply exit the program by **clicking** on the **X** button in the upper right corner.

Input Sheet

Printed Copies Of The Input Sheets

The fastest way to get blank printed input sheets is to print them from the program's Help  routine. **Click the Contents tab. Click the on Input Sheet selection. Click on the input section that you are interested in. When you see the input sheet on the help screen, click on Help's Print button.**

Initial Inputs



To print this, simply click on the Print button,

Change or set filename: _____

Employee: _____

Employer: _____

Vehicle: _____

Period of employee's use of vehicle:

Start date: _____

Stop date: _____

Odometer start miles: _____

Odometer stop miles: _____

Business miles: _____

Did employer buy gas? ___

Income per mile for gas: (override) _____

Other costs: _____

Employee reimbursements: _____

Gross up compensation for Soc. Sec. & Medicare taxes? **YES** or **NO**

YTD FICA Wages: _____

Special Valuation



To print this, simply click on the Print button,

Override Special Valuation qualification tests

Special Valuation Qualification Tests

Fringe treated as wage on W-2 by due date of return.

Employee includes fringe on return for year ben. rec'd.

Good faith effort to treat fringe correctly.

Override Control Employee test.

Control Employee Tests

On board or officer. Pay over limit. (The screen will display the current year limits.)

Is a director of employer.

Pay over limit. (The screen will display the current year limits.)

Owns 1% or more of employer.

Commuting Rule



To print this, simply click on the Print button,

Override Commuting Rule qualification tests

Commuting Rule Qualification Tests

Used in employer's trade or business.

There is a good reason to commute with vehicle.

The employer has the required written communications.

No personal use, other than commuting.

Override Control Employee test.

Control Employee Tests

On board or officer. Pay over limit. (The screen will display the current year limits.)

Is a director of employer.

Pay over limit. (The screen will display the current year limits.)

Owns 1% or more of employer.

Number of one-way commutes: _____

Income per one-way commute: (override) _____

Cents-Per-Mile Inputs

To print this, simply click on the Print button,



Override Cents-Per-Mile qualification tests

Cents-Per-Mile Rule Qualification Tests

The auto was under the FMV limit for the first year it was made available to employees (The screen will

display the limits.)

Expected to be used in trade or business.

Override Mileage Test

Mileage Test

The car is driven over 10,000 miles.

The auto is used primarily by employees.

Cents-Per-Mile Rate: (override) _____

Annual Lease Valuation Inputs

To print this, simply click on the Print button,



Limit analysis to safe – harbor methods. Ignore FMV estimate.

FMV Estimate (facts and circumstances): _____

Safe – Harbor Methods

Manufacturer's invoice price: _____

Suggested retail (sticker price): _____

Nationally recognized price source FMV: _____

Lease Inclusion Amount inputs

Year lease started: _____

Year of lease: _____

General Rule

To print this, simply click on the Print button,



Fair market value for use of vehicle to employee: _____

License Agreement

DENVER TAX SOFTWARE LICENSE AGREEMENT

LICENSE AGREEMENT -- READ THIS BEFORE CONTINUING

EMPLOYEE AUTO COMPENSATION ANALYZER

by
Denver Tax Software, Inc.

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