

The 2019

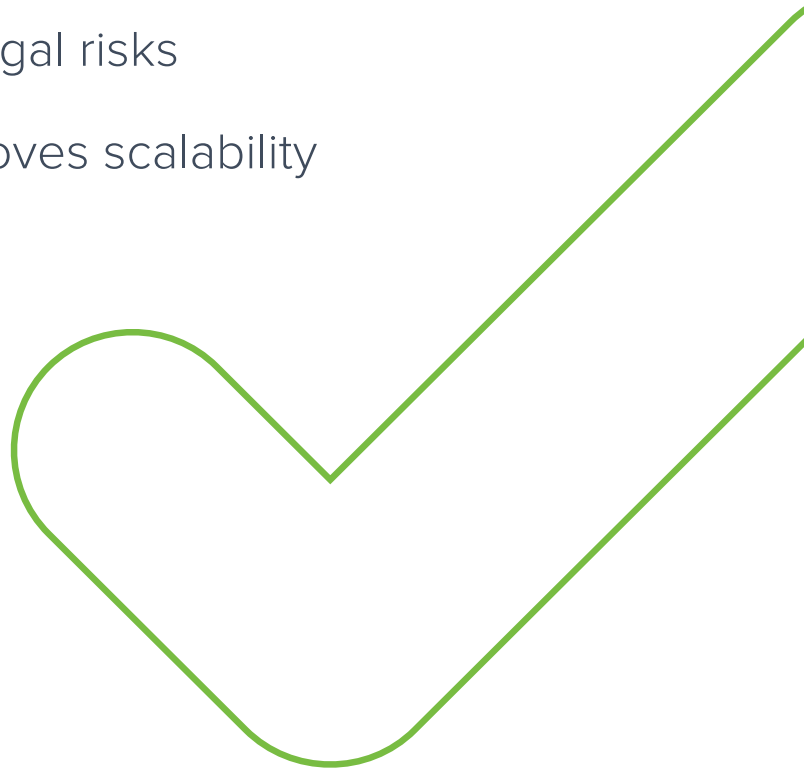
# **Car Allowance & Reimbursement Checklist**

The latest tax reform eliminated the unreimbursed expense deduction for the tax years 2018-2025. It's crucial for businesses to protect their employees' income by updating their current car allowance or mileage reimbursement program.

Before state labor codes begin to penalize employers that don't fully reimburse employee business expenses, use our checklist to help you review and revise your current policy.

## Follow our ten steps to create a policy that:

- 1 Attracts and retains top talent
- 2 Reduces financial and legal risks
- 3 Controls costs and improves scalability



# 01

## Determine your goals

Good changes need good reasons driving them. You need to achieve more than just updating a car allowance or mileage reimbursement that's gone ignored for a few years.

### QUESTIONS TO HELP YOU DERIVE GOALS:

- Does the car allowance or mileage reimbursement function as disguised compensation or as a business tool?
- Who needs a car reimbursement vs. car allowance?
- How big is each employee's territory size?
- Where do employees live and what costs do they experience?
- How competitive is our plan compared to the rest of the industry?
- Does our current allowance or reimbursement comply with labor laws?

Many goals depend on other goals. For example, a competitive car allowance takes into consideration costs where employees live, which also prevents labor code violations.

# 02

## Understand and assess the risks

There are several variables at play when you have mobile employees traveling for work.

### THE RISK CAN BE DEFINED IN THESE AREAS:

- **General liability** – How much risk does your company face from accidents?
- **Respondent superior** – How much liability will your company incur if an employee causes an accident and is deemed negligent or “unfit” to drive?
- **State and federal regulations** – Does your car allowance or mileage reimbursement follow IRS regulations for accountability and comply with labor codes?

Any new allowance or reimbursement policy should address all of these risks. If you aren't sure how to calculate each type of risk, contact mBurse for a free assessment.

# 03

## □ Identify key influencers

Certain conditions influence the effectiveness of car allowances and mileage reimbursements.

### THESE CONDITIONS (KEY INFLUENCERS) INCLUDE:

- **Labor codes** – Some states make it illegal to improperly reimburse employees (indemnification).
- **Tax reform** – Individuals can no longer write off unreimbursed business expenses from 2018 until 2025.
- **Current costs** – Car allowances and mileage reimbursement rates must be based on current costs, such as gas prices, and adjusted as costs change.

Given the changes to the tax code, it is more important now than ever to reimburse properly, especially employees living in states with high costs or strict labor laws.

# 04

## □ Analyze the market

First, look at your industry to find out what will make your car allowance or mileage reimbursement competitive. After all, your new policy needs to help you attract and retain top talent and ensure productivity.

### QUESTIONS TO ASK:

- What do companies in our industry provide?
- What do our closest competitors provide?
- What do similarly-sized companies in other industries provide?

If you don't have access to this data, **contact mBurse** for a free analysis.

# 05

## Control costs

A successful car allowance program will be cost-efficient while compensating employees equitably.

### SOURCES OF WASTE YOU SHOULD TARGET:

- **Tax waste** – A taxable (non-accountable) car allowance costs both your company and the employees through unnecessary taxation.
- **Excessive mileage** – Employees receiving a mileage reimbursement may drive unnecessary miles or report extra miles to increase compensation.

The new policy must be carefully planned to avoid what is easy or has always been done. You must reimburse fairly without providing a way for employees to “drive for dollars.”

# 06

## Let data drive your rate or amount

Base your new policy on objective data and facts, not a subjective feeling. It is really important to get this right.

### WHEN PRESENTING YOUR NEW CAR ALLOWANCE, WHICH SOUNDS BETTER?

1. We felt the company car allowance amount should be...
2. We based the car allowance or mileage reimbursement rate on actual costs...

At this point in history, we have unprecedented access to data. It is irresponsible not to consult data about the actual vehicle costs employees face when setting your policy.

# 07

## Avoid the one-size-fits-all approach

When redesigning your car allowance or mileage reimbursement, it's natural to provide everyone with a single allowance amount or mileage rate. But this is a trap.

### ASK THE FOLLOWING QUESTIONS:

- Do all our employees cover the same sized territory?
- Do they generally drive similar distances under similar conditions?
- Do all regions experience the same insurance rates, gas prices, and vehicle taxes?

The answer is almost certainly NO to each question. So there is no way one amount or rate will address each employee's expenses.

# 08

## Keep it scalable

Your car allowance should adjust and grow with your company as well as with rising and falling costs.

### QUESTIONS TO ASK:

- Will our new policy be affordable if the company adds employees and/or expands territories?
- Does our amount or rate account for fluctuating gas prices and insurance costs?

When determining your new policy, make sure you create a mechanism for regular adjustments that allow you to respond to changes in company size and employee costs.

# 09

## Keep it flexible

Building on the concept of scalability, your new policy should be flexible so it treats employees on a fair and consistent basis. Different employees play different roles, affecting their actual expense needs.

### YOUR POLICY SHOULD INCLUDE:

- Different plans for front line reps, middle management, and executive management
- Plans based on actual expense needs, not seniority or prestige
- Plans that address differences in territory sizes and costs

It's not enough just to avoid "one-size-fits-all." Flexibility should center on the expense needs associated with each employee's responsibilities.

# 10

## Do what's right, not what's easy.

Coming up with an arbitrary allowance amount is easy but will create future problems. Using the IRS mileage rate is also easy but won't control costs. Easy decisions will expose your organization to unnecessary risks.

### EXAMPLES:

- **Standard car allowance** – Potential exposure to employee indemnification codes and to tax waste
- **IRS mileage rate** – No cost control and could potentially expose the company to labor code violations under latest tax reform
- **"Home grown" mileage rate** – May under- or over-reimburse employees and expose organization to labor code violations
- **Gas card or fuel reimbursement** – Administratively difficult to maintain IRS compliance and there is no way to control costs

Instituting an effective car allowance or reimbursement policy takes careful consideration. Following this checklist will help you reduce risks, control costs, attract and retain talent, and increase your company's adaptability. Take the time now to get it right – it will be worth every minute.