

**From:** Harrison D. Jerome  
**Sent:** Tuesday, April 13, 2010 4:02 PM  
**To:** Harrison D. Jerome  
**Subject:** Important Information Re: State Fund Cars

Dear Colleagues,

As you know, State Fund has been analyzing our fleet to determine if our current policy meets State Fund's business needs. State Fund has maintained a car fleet for over fifty years. Currently there are almost 2,000 cars in our fleet and approximately 1,800 assigned drivers or approximately 25% of our workforce.

### **Need for Change**

Over the past several years, we have received numerous inquiries on our fleet from California's WasteWatcher Program, the California Department of Insurance and the California Bureau of State Audits. Many of these inquiries were focused on personal use, rather than business use.

Our analysis revealed that State Fund's fleet policy was not in line with the way other state agencies or other businesses manage assigned cars – especially with regards to personal commutes.

### **New Direction**

We have decided to implement a vehicle assignment policy that ensures our fleet supports appropriate business needs and reduces the size of our corporate fleet. The primary reason for this decision is that it supports our commitment to strengthen corporate governance, improve risk management across the enterprise and increase operational transparency. Secondly, this move supports our need to reduce expenses across the organization. Although we ended 2009 on a strong financial note, our combined ratio exceeds 160 percent and we must take measures to reduce our expenses going forward.

Although we do not have the exact numbers, we anticipate eliminating as many as 1,000 cars from the fleet. This may affect employees at all levels, from the executive level to frontline staff.

## **New Fleet Policy**

We have established an implementation committee to help us identify which positions require a State Fund car. *In general, positions that have a substantial business purpose for using a State Fund vehicle will qualify for an assigned car. This means that at least 80% of the miles driven in the vehicle must be for State Fund business purposes.*

We will notify employees affected by this decision by June 1, 2010. Executive Committee members and program Managers who no longer qualify for an assigned car will need to turn their cars in by December 31, 2010. All other affected employees will have one year to make other transportation arrangements, and cars will need to be turned in by July 1, 2011.

State Fund will provide mileage reimbursement to employees at the IRS reimbursement rate (currently \$.50 per mile) for documented mileage in the employee's personal vehicle for State Fund business. State Fund will also maintain a larger fleet of pool cars for those who would prefer to drive a pool vehicle rather than their personal vehicle for State Fund business.

A SEMIMONTHLY PUBLICATION FOR THE WORKERS' COMP EXECUTIVE

Additionally, we will continue to provide a parking space to all affected employees, including those who work in Home Office and have had an assigned car.

## **IRS Rules and Taxation**

In addition to regulators' inquiries into our fleet, the IRS has recently started an audit of the State of California fleet of vehicles for the reporting year 2008. Although we have not been notified that we are subject to that audit, we felt it was important to consult with outside specialized tax counsel to review our tax reporting to the IRS with respect to employee use of State Fund vehicles. We have been advised by outside tax counsel that State Fund needs to change the rule for reporting, withholding and making payment of income and employment taxes for those employees who use their State Fund provided vehicles primarily for commuting.

As you are aware, all employees who are assigned a State Fund car must report personal commuting use for their car each month. State Fund reports the value of this personal commuting as "imputed income" (Imputed income is income that is not cash, but instead comes in the form of a benefit), which is employee taxable income, to the State Controllers Office, who then reports it to the IRS and FTB, and appropriate taxes are withheld. Most employees use the Commuting Valuation Rule (CVR) and report \$1.50 in imputed income per commute.

Our outside tax counsel has advised us that the CVR is appropriate **only** if a driver of an assigned vehicle uses the car for business purposes **and** has a legitimate business reason to commute in a State Fund provided vehicle. Business purposes must be related to the vehicle as a *required* tool for the job - similar to needing a telephone or a computer.

So what does this mean for you?

## WORKERS' COMP

State Fund drivers whose *business* mileage is at least 50% of their total mileage and who have a legitimate business reason to commute in a State Fund provided vehicle are eligible to continue using the CVR rule. State Fund drivers whose *personal commuting* is greater than 50% of total miles driven must use the IRS method known as the Safe Harbor Fair Market Value Rule to report income for the 2010 tax year. In any circumstance, State Fund policy remains that employees cannot use a State Fund provided vehicle for personal use, except for commuting.

The Safe Harbor Rule requires a fair market valuation of the vehicle, gas, insurance and maintenance to determine the imputed income. This change will increase affected employees' imputed income and may increase their ultimate tax liability. However, every employee has a different tax situation and we recommend checking with your tax advisor to understand how this change might impact you.

In order to be compliant with IRS rules, we **must** notify employees who do not qualify for CVR to begin reporting under the Safe Harbor FMV rule as soon as feasibly possible.

In order to accurately identify and notify those employees who must begin reporting under the Safe Harbor FMV rule, we will review the ARI reports for the months January 1 - March 31, 2010.

For those employees that want to limit the amount of imputed income associated with their State Fund assigned vehicle, we will arrange for you to turn in your vehicle and keys immediately.

There is a lot of information in this letter, but we have also included a Q and A document for both the new fleet policy and the IRS reporting requirements. We appreciate that this is difficult news for many employees and will do all that we can to assist employees.

Harrison Jerome

Chief Operating Officer

cc: Q and A 's



"Primer" on IRS rules related to employer provided vehicles