



MM POSITION PAPER: AUTOMOBILE USAGE FOR MINISTERS

Miller Management position papers are a compilation of our staff's research, education, seminars and training classes attended, over 30 years of field experience and interpretation of current laws as we understand them. The information contained in this paper is not legal advice and is intended to be used as general information to help your organization formulate your own guidelines. It is understood that your organization is legally responsible for all policies and procedures, and their legal basis.

Application: We are asked on a regular basis to help clarify issues surrounding the purchase and/or use of automobiles by church staff and volunteers. The following is an attempt to clarify the basic tax laws regarding three potential methods for handling the use and/or lease of automobiles.

OPTION 1: MILEAGE REIMBURSEMENT (RECOMMENDED)

When the church establishes a mileage reimbursement policy for church volunteers and/or church staff to use their personal vehicles for church business, the maximum reimbursement rate should match the IRS rate for that year. While many churches chose to reimburse people at a lesser rate, it would appear to be prudent to use the government standard, so as to avoid issues of people feeling used and/or abused for Kingdom service or in extreme cases, encouraging people to inflate their actual mileage to compensate for lower reimbursement rates.

The IRS requires that a mileage record be kept of all reimbursed miles. The record must be kept for audit purposes for at least five years either by the church or by the individual. We recommend that the church retain the mileage records for backup to the reimbursement check issued. The mileage record should include the destination location, date of travel, purpose for the travel and actual miles driven. The IRS further stipulates that mileage between home and the church is not reimbursable. They consider that mileage a part of the normal employment process.

If a person leaves from home to go to a church function or appointment, then drives to the church office following the appointment, only the difference in total mileage of the trip minus the mileage going from home to the church is reimbursable. Example: Normal distance from home to the church is 10 miles. You leave from home to go to the hospital and then on to the church, for a total of 15 miles. Only the difference (15 miles minus the normal 10), or 5 miles is reimbursable.

In addition, all documented mileage reimbursements that are at or below the IRS issued rate are not taxable. They are not reported on 1099 or W-2 documents.

This method is the cleanest and most accountable manner in which to handle mileage, and it protects the church in case of an IRS audit.

OPTION 2: AUTO ALLOWANCE

Some churches allow their staff to receive an auto allowance in lieu of taxable salary compensation.

The church can provide an auto allowance that can be used for a lease and/or a purchase of an automobile, and/or the pastor can use their own personal vehicle and use the funds for direct reimbursement of fuel, maintenance, and/or insurance. Exact records must be kept.

Or

The auto allowance can be justified by keeping the same mileage log as referred to in option 1. If the total miles times the current government rate is equal to, or exceeds, the auto allowance, then the allowance is considered justified and is considered non-taxable. If however the mileage method is used and the amount of allowance is greater than the actual miles driven, then the excess portion of the allowance must be counted as taxable income.

Because the IRS guards against “non-taxable” compensation, the record keeping is extensive for the allowance approach. Basically, all the direct expenses for the automobile must equal or exceed the auto allowance or the residual automatically becomes reportable, taxable wages. In addition, whatever percentage of mileage that is driven for personal use must be recorded and deducted from the expenses that offset the allowance. If audited, without impeccable record keeping, the IRS will review other vehicles owned, total miles driven, lifestyle, etc., and rule on what percentage personal miles they believe is reasonable.

While the idea of an auto allowance sounds appealing, we do not recommend this approach because of the complexity of laws and record keeping required.

OPTION 3: AUTOMOBILES PROVIDED BY THE CHURCH

a) The church can purchase and/or give a donated automobile to a staff member if they wish. They can use church funds to purchase the automobile or they can give them an automobile that has been donated to the church. In either case, if the title of the auto transfers to the staff member, the fair market value of the auto becomes taxable wages for that individual in the year the title is transferred. At that point, the auto is owned and operated by the staff member as if they had purchased the auto themselves.

b) The church can lease an auto for a staff member, make the lease payments, and cover the cost of insurance and fuel if they wish. Records must then be kept of what percentage of the miles driven are for personal use. Whatever the percentage of personal use amounts to, it must then be used to calculate taxable wages. To calculate the taxable wages that must be added to the staff member's W-2, please see table 3-1 on page 28 of IRS Publication 15-B (2021).

c) If the church allows a staff member to use an auto that the church owns that has been donated or previously paid for, then policies and corresponding record keeping will need to be established governing the use of the auto and who pays for what. Once again, the IRS will be looking for taxable wages to be calculated for any personal mileage used.

A good accountable system of recordkeeping should be in place to satisfy IRS regulations and to reduce the chances of abusing the auto policy for personal usage.

While this is a viable option, we believe this option has too many complexities and risks.