

## Memo

**Date:** January 5, 2026

**To:** Agency Payroll, HR, and Accounting Staff

**From:** Katie Karow, Director, Statewide Payroll Services

### RE: Personal Use of Employer-Provided Vehicles

The Internal Revenue Service (IRS) requires all personal use of employer-provided vehicles to be valued using one of three valuation methods. This value must be included in employee wages and reported on the W-2. The State withholds federal, state, Social Security (FICA) and Medicare taxes on the value of the personal use of employer-provided vehicles. This memo is a reminder to agency staff that all employees are responsible for accurately documenting and reporting personal use of employer-provided vehicles, so the value is added to their income and tax withholding is calculated appropriately.

Agencies should review Minnesota Management & Budget Operating Policy and Procedure PAY0019, *Reporting Personal Use of Employer-Provided Vehicles for Tax Purposes*, which outlines the three methods allowed by the IRS for valuing employee personal use. You must evaluate each method's criteria in order to select the correct one. The methods are:

- Commuting Rule
- Cents-Per-Mile Rule
- Annual Lease Value Rule

The policy and procedure includes "[Employee Instructions](#)" that should be given to employees using employer-provided vehicles. Mainly, the instructions define reporting requirements, indicate the required documentation, and outline the three valuation methods and their criteria.

The IRS has not changed the criteria for the commuting and annual lease value rules for 2026. For the cents-per-mile rule, the IRS has made its annual announcement regarding ***the fair market value maximum and the standard mileage allowance rate for 2026.***

- ***Employees cannot use the cents-per-mile rule if the fair market value for a vehicle first made available in 2026 exceeds \$61,700 for a passenger automobile (including a truck or van).***
- This compares to:
  - \$61,200 for a passenger automobile other than a truck or van, or \$61,200 for a truck or van first made available in 2025.
  - \$62,000 for a passenger automobile other than a truck or van, or \$62,000 for a truck or van first made available in 2024.
  - \$60,800 for a passenger automobile other than a truck or van, or \$60,800 for a truck or van first made available in 2023.

Additional information for fair market values can be found in SEMA4 Help, on the [Cents-Per-Mile Rule](#) page. The IRS standard mileage allowance effective January 1, 2026, is 72.5 cents per mile (If an employee meets the criteria to use the cents-per-mile rule, this is the rate used to compute value).

**Questions?**

Agency Payroll, HR, and Accounting staff should contact Courtney Salmon at 651-259-3774 or [spsaccounting.mmb@state.mn.us](mailto:spsaccounting.mmb@state.mn.us) if there are questions.

**PLEASE SHARE THIS INFORMATION WITH APPROPRIATE AGENCY STAFF**