From the desk of

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The FAVR Car Allowance Method

The Fixed and Variable Rate (FAVR) car allowance system was designed to reimburse employees who drive their personal vehicles for business purposes for their employers.

Most companies use the more familiar IRS business mileage standard but FAVR presents another more precise option.

The Fixed and Variable Rate (FAVR) is an IRS revenue procedure (2010-51) that was designed to reimburse employees tax-free for both the fixed (insurance, license and registrations fees), and variable (fuel, maintenance) costs associated with driving for business.

While there is a general lack of awareness that the FAVR method exists being that most employers reimburse their workers using the more commonly known IRS business mileage standard, which is used to calculate the deduction for operating a personal vehicle for business purposes, the FAVR method is an approved IRS alternative reimbursement procedure.

How the FAVR Method Differs from the IRS Standard Mileage Method

The FAVR Method recognizes that driving your own car for business makes for a different set of costs than driving a company vehicle.

The FAVR Method breaks down all the calculations for reimbursement into fixed and variable categories.

The FAVR system is more specific in that it takes into account the fluctuations in business cycles, geographical locations, and costs.

The FAVR system is the most accurate reimbursement solution in that it provides a customized reimbursement to each mobile employee based on their local costs and business mileage, which can vary month to month.

One advantage in using FAVR is the fact that the IRS business mileage standard can make mistakes when reimbursing employees because the costs can actually fluctuate on any given day.

The existing business mileage standard runs the risk of over/ under reimbursing employees.

One of the problems with the IRS standard is it does not use real-time data but an average from past numbers.

The IRS standard is a point-in-time average of costs which is determined using data from previous years, not an actual reimbursement rate.

Employees could be spending more on travel than they are being reimbursed for, or could be over-reimbursed if fuel prices fall, and the IRS Standard Mileage Method does not allow for any such adjustments during the year as was experienced this past year with fuel prices dropping due to less usage.

The FAVR System allows companies to account for the full range of costs for driving for work, and allows employers to tailor reimbursements specifically to each individual employee.

Other problems with the IRS Standard Mileage Method is that other consequences for inaccurately reimbursing workers can lead to class action lawsuits.

Some states such as California, New Hampshire, and Montana have strict employee-protection laws that outline specific requirements for expense reimbursements or deductions. These laws have formed the basis for numerous class action lawsuits and multi-million dollar settlements by workers for inequitable reimbursement practices such as with RadioShack, Starbucks, and Uber.

The FAVR System does have specific requirements that small businesses will want to pay attention to, such as with any company that has mobile workers driving more than 5000 miles for business on a yearly basis.

That could include a range of sales executives who need to drive to their clients for pharmaceutical companies.

Small business consultants as well as home healthcare companies and even nurses who make patient visits are all other examples.

The IRS has laid out the framework for collecting the data under FAVR, there are a few simple tips to keep in mind, those being:

- Companies can now leverage GPS-enabled smart devices, cutting-edge software, and comprehensive vehicle management solutions to track, collect and store all of their employees' business travel information, which can then be reported to the IRS;
- It's much more efficient for small businesses to use mobile apps to track mileage, and make distinctions between business miles, commuting and personal trips than trying to keep paper logs.

In essence, to use the FARV System, one must employ one of the many smart device applications to track the data, and then come up with a reasonable methodology in reimbursing employees in the use of their personal vehicles. In reality, if an employer has substantial amount of employees driving, company cars maybe the answer.
