



**June 27, 2006**  
**Pennsylvania Personal Income Tax**  
**No. PIT-06-010**  
**Compensation; Employer-Provided Vehicle**

ISSUE

Is the fair market value of a vehicle that an Employer leases and provides to its employee includible in the employee's "state wages" that are reported to the Commonwealth of Pennsylvania?

CONCLUSION

No. Since the statutory definition of compensation excludes an employee's personal use of a vehicle that is owned or leased by the employer, the fair market value of the car should not be included in the "state wages" reported on the employee's W-2.

FACTS

Employer leases vehicles and provides these vehicles to its employees. Since it assumes no responsibility for its employees properly reporting their business versus personal use of the vehicles, it includes the fair market value of the leased vehicle in the wages it reports for federal income tax purposes. Recently, one of its employees who is a Pennsylvania resident questioned whether Employer should include the fair market value of the vehicle in the "state wages" that Employer reports to the Commonwealth of Pennsylvania.

DISCUSSION

Section 301 of the Tax Reform Code of 1971 states that compensation does not include the "personal use of an employer's owned or leased property or employer-provided services." 72 P.S. § 7301(d)(x). Thus, the value of a vehicle that is leased by the Employer and provided to its employee should not be included in the wages that the Employer reports to the Commonwealth of Pennsylvania because both the employee's business use and personal use are nontaxable. Additionally, since the employee's compensation does not include the value of the vehicle, Employer has no withholding requirements related to the value of the vehicle that it leases and provides to its Pennsylvania employees.