mBurse

DATA SHEET

Fixed and Variable Rate

A non-taxable and defensible reimbursement approach.

Fixed and Variable Rate (FAVR) is an Internal Revenue Service procedure that treats travel reimbursements as non-taxable expense offsets, as long as certain guidelines are followed.

What is FAVR?

Payments to drivers are not taxed as compensation because FAVR categorizes and offsets costs precisely. Travel costs fit into two categories: fixed and variable. Fixed costs stay relatively unchanged from month to month and include car insurance, taxes, registration, and depreciation. Variable costs fluctuate and include fuel, maintenance, and tires.

Unlike traditional car allowances and reimbursements, FAVR distinguishes between the two costs. The employee receives a monthly dollar amount for fixed costs along with a mileage reimbursement rate that fluctuates with variable costs. FAVR essentially combines a car allowance with a mileage rate but achieves a higher level of precision and cost control. A FAVR program bases both the dollar amount and the mileage rate on the employee's zip code, tailoring reimbursement to an employee's actual costs.

AT A GLANCE

Every employee who drives for work experiences both fixed and variable costs.

Traditional car allowances and cents-per-mile reimbursements do not distinguish fixed from variable costs.

FAVR (fixed and variable rate) reimbursement plans address fixed costs through a fixed monthly dollar amount and variable costs through a variable mileage rate, all based on the employee's zip code.

Advantages include precision in reimbursements, equitable pay for employees, non-taxable reimbursement, cost control, and defensibility, offering protection from labor code violations.

The disadvantage is the increased complexity of administering the program. Many companies, however, determine that the savings outweigh the increased complexity.

Contact mBurse to find out how much switching to a FAVR program could save your company.

Why FAVR?

The vast majority of companies with mobile employees pay either a monthly car allowance or a cents-per-mile reimbursement rate (often the IRS mileage rate). Both approaches have the same flaw: a static amount or rate applied to dynamic, diverse costs. Different employees experience different costs, and costs fluctuate over time. Yet car allowances and mileage rates remain the same across the company and over time. Consequently, some employees are overpaid and some underpaid, adversely affecting morale, productivity, attrition rates, and overall expenses.

A FAVR plan surmounts additional challenges of traditional plans. A fixed, monthly car allowance is a non-accountable plan and taxed by the IRS. Unless a company substantiates employee mileage and charges back for overpayment, the monthly allowance cannot be proved to reimburse actual expenses. FAVR, on the other hand, precisely covers employee expenses, rendering it an accountable, non-taxable plan.

Companies that switch from a traditional car allowance to FAVR leverage eliminated tax waste into company savings and increased employee take-home pay.

Cents-per-mile plans are non-taxable up to the IRS mileage rate but have uncontrollable costs. Because these plans rely on employee-reported mileage, employees can drive up reimbursement costs by estimating or reporting extra miles. Moreover, the IRS rate is a tax deduction tool and may exceed employees' actual costs in many locations. A FAVR plan combined with automated mileage capture can control costs while delivering suitable reimbursement to each employee. This protects the company from labor code violations in states like California that indemnify employees from all work-related expenses.

How FAVR Can Work for You

Switching to FAVR may seem daunting due to administrative complexity. Typically, a company that opts for a FAVR plan will engage a third-party organization to administer the program. The savings from the new plan are sufficient to cut overall costs and boost employee benefits, while paying the third-party, whose work frees management to focus on company priorities.

Establishing a FAVR plan allows management to design a reimbursement policy that aligns with company objectives. Here's the typical process when mBurse helps a company create its policy:

1. Establish guidelines and parameters.

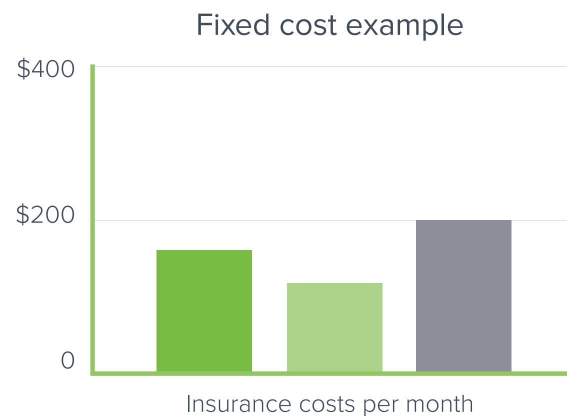
Each company has unique goals and needs. In order to determine appropriate reimbursement amounts, you pick a standard vehicle appropriate for employees' work requirements as well as minimum insurance coverage. This reduces company risk and determines the expected expenses of an employee working in x territory while garaging a standard vehicle in y zip code.

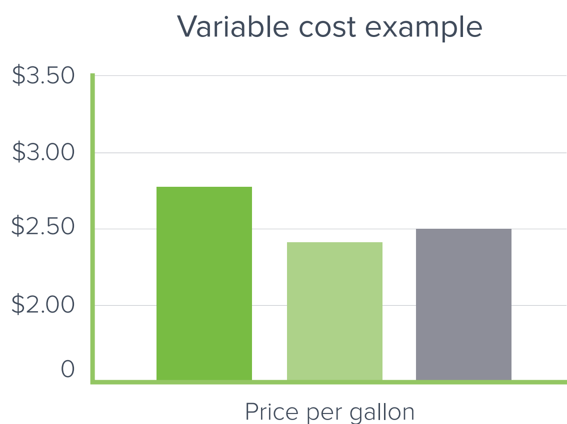
2. Determine reimbursement amounts for individual employees based on location.

If your company operates in multiple states, employees will experience very different expenses.

Both fixed costs and variable costs will differ by geographical location, and mBurse's extensive and unique databases of business vehicle costs generate precise reimbursement rates.

Examples of Cost Variances by State





California Alabama Michigan

3. Capture mileage accurately and reimburse employees accordingly.

Accurate reimbursement depends not just on location data, but also on an accurate mileage log. A FAVR rate will vary over time and by location, but this alone will not control expenses. You need an advanced tool such as a GPS app that captures and reports mileage automatically.

When it comes to auto reimbursements, you can let the policy dictate company priorities, or you can let company priorities dictate the policy. A traditional policy over time will force you to react to reduced productivity, increased attrition, and escalating costs. By choosing FAVR, you choose accurate, equitable, and defensible reimbursement while putting objectives before policies.

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