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# Operating Under 62c in the Courier Industry

**Introduction to 62c**

The matter of the employee verse independent contractor classification continues to be challenged at all levels of our industry and throughout the public sector. This includes the federal, state and local regulatory bodies. Among the most frustrating aspects of this debate is the absent of authoritative guidelines that address the local/regional courier industry…with one significant exception!

Those choosing the "employee model" have an IRS guideline that speaks specifically to courier compensation. The guideline is titled Rev. Rul. 2004-1 and is published in the Internal Revenue Bulletin: 2004-4, dated January 26, 2004. Our industry has affectionately called this the "62c" rule. 62c is a broad section of the Income Tax Regulations for employee expense reimbursement and accountable plans.

Below is MCAA's summary of the relevant points of Rev. Rul. 2004. Like most IRS language, the ruling is not without "gray areas" needing interpretation. After reading the summary we encourage you to review the publication in its entirety. And, no different than all your financial matters, you should consult your own tax advisor.

**Summary of 62c**

A courier company hires an employee driver to deliver packages locally. The driver must own or lease their own vehicles for use in connection with courier services. When delivering packages, the driver incurs the common expenses of operating an automobile.

Employer charges customers for deliveries on a per package charge, known as a tag rate. The mileage component of the tag rate is computed as though each package were delivered separately.

The tag rate may not accurately reflect the transportation expenses incurred per package. This is due to the fact that drivers often pick up and deliver multiple packages and may travel overlapping routes between and among customers.

Employer pays the driver a commission equal to X percent of the tag rate as compensation for services. Additionally, employer pays the driver a mileage allowance equal to Y percent of the tag rate to cover the expenses of operating their vehicles.

Because the mileage allowance is computed based on a percentage of the tag rate, the mileage rate paid with respect to any particular package varies depending on the number of miles traveled.

Employer determines the percentage of the tag rate paid as a mileage allowance annually and the percentage remains fixed throughout the calendar year.

The percentage paid as a mileage allowance is based on employer's review of a sample of documents submitted by the driver reflecting the driver's operating and fixed costs. Employer only pays the mileage allowance on miles traveled while delivering packages.

Employer requires that, on a monthly basis, the driver provide information sufficient to substantiate the number of business miles traveled.

Employer multiplies the number of miles traveled by the business standard mileage rate (as published by the Commissioner) to calculate the amount of travel expenses deemed substantiated. Employer subtracts the amount deemed substantiated from the mileage allowance paid and reports the excess as wages on the driver's Form W-2.

Amounts treated as paid under an accountable plan are excluded from the driver's gross income, are not reported as wages or other compensation on the driver's From W-2, and are exempt from the withholding and payment of employment taxes. Conversely, amounts treated as paid under a non accountable plan are included in the driver's gross income, must be reported as wages or other compensation on the driver's Form W-2, and are subject to withholding and payment of employment taxes.