Cash or Car Report

Report prepared by

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1. General Overview

A new report from consultants Watson Wyatt has found that 28 per cent of employers provide a cash allowance instead of a car; double that of four years ago and now more the than proportion who offer company cars without a cash alternative.

Watson Wyatt found that a further 46 per cent of employers offer the choice between car and cash.

This brings the proportion of employers providing either cash instead of or as an alternative to a company car to 74 per cent.

This is in sharp contrast to much of the rest of Europe, where the direct provision of a company car is still largely the norm.

Over 70 per cent of employers in Belgium, Greece, Italy, Portugal and most central and eastern European countries provide company cars only, without a cash alternative.

The data comes from Watson Wyatt's 2008 Company Car/Cash Allowance Report, a survey of company car policies which includes extensive information and data on company car policy across 38 countries, including, for the first time, UAE, Egypt, Saudi Arabia and Israel.

Compared with four years ago, the proportion of employers offering cash or a cash alternative has gone up by 40 per cent in the Netherlands and in Ireland, 32 per cent in Germany and 24 per cent in Sweden. However, this is partly driven by companies creating pan-European company car strategies; while employees in these countries may be offered a cash alternative, the majority will still go for the car because of tax efficiency."

Company car policies - selected European countries

	Employers offer company car only	**Employers offer cash or cash option**	**Employers reimburse expenses/other**
	%	%	%
Portugal	78	20	2
Italy	77	20	3
Belgium	74	23	3
Spain	68	23	9
France	66	30	4
Netherlands	66	31	3
Germany	61	35	4
Switzerland	41	51	8
Sweden	39	57	4
Ireland	23	71	6
UK	23	74	3

2. Company car Taxation

There is a tax charge where, because of their employment, a car is made available to and is available for private use by a director or an employee earning £8,500 a year or more, or to a member of their family or household (a ‘company car’).

There is a further tax charge if free or subsidised fuel is provided for private use in a company car.

2.1 Company cars – Employers

If you make a car available to your employees and it is available for private use (including commuting), your employees have to pay tax on the benefit of this. In the same way, they have to pay tax if you provide free or subsidised fuel for private use in that car.

Where these benefits are taxable, employers and other providers (but not employees) are liable to pay Class 1A NICs.

In general, the benefit charge is lower for cleaner and cheaper cars. This is to encourage you and your employees to choose cars which are less damaging to the environment.

An employer must submit form P46 (car) to HMRC within 28 days from the end of the quarter to 5 July, 5 October, 5 January and 5 April, in which any of the following events take place:

- The employee/director is first provided with a car which is available for private use
- A car provided to the employee/director is replaced by another car which is available for private use
- The employee/director is provided with a second or further car which is available for private use
- A car provided to the employee/director is withdrawn and not replaced
- An employee/director provided with a car available for private use who was previously an employee earning less than £8,500 begins to earn in excess of this amount

2.2 Changes to the car benefit rules in 2008/09

The car benefit charge for a full year is obtained by multiplying the price of the car for tax purposes (its list price plus accessories less capital contributions) by the 'appropriate percentage'.

Changes to the rules for calculating the appropriate percentage from 2008/09

The appropriate percentage is based on the car's approved CO2 emissions figure. There are some supplements and reductions to take account of different fuels. The rules governing the calculation of the appropriate percentage change in three ways with effect from 2008/09.

- The lower threshold, the CO2 emissions figure which determines the appropriate percentage for all cars, is reduced from 140 to 135.
- A new '10 percent band' is introduced for cars with a CO2 emissions figure of exactly 120 g/km or lower, the normal rounding does not apply to this figure. They are called 'qualifying low emissions cars' in the legislation, QUALECs for short. Diesel adjustments apply to QUALECs as to all others, but that is all; no other reduction which is available on other cars applies to QUALECs. As a result, the only acceptable figures for the appropriate percentage for QUALECs are 13 percent - cars to which the diesel supplement applies, and 10 percent - all other cars. So there is no misunderstanding, electric-only cars are excluded from these arrangements and retain their net appropriate percentage of 9 percent.
- There is a new 2 percent reduction for cars manufactured to be able to run on E85 fuel, a mixture of 85 percent bio-ethanol and 15 percent unleaded petrol. They will be known as type G on forms P46 (car) and P11D. Other cars cannot run on this mixture without damaging the engine.

For 2008/9 the percentage for the calculation of employers' Class 1A National Insurance Contributions (NICs) on company cars remains as for 2007/8 at 12.8% of taxable value.

To calculate the annual Class 1A NICs due, you need to know the car's taxable value, derived from multiplying the P11D price by the relevant BIK tax percentage. This is then multiplied by 12.8% to give the annual tax due

The P11D is the list price of the car, the day before it was registered, including delivery charges but excluding Road Fund Licence and 1st Registration Fee. N.B. this is not the price you pay for the car. Any extras fitted to the car including items fitted after the vehicle is delivered, e.g. a tow bar, should be included in this figure.

2.3 Company cars - Employees

Car benefit rates

Company cars are taxed on a percentage of their price, which varies according to the level of their carbon dioxide emissions, measured in grams per kilometre.

- A minimum charge of 15% applies to cars emitting CO2 at or below specified levels, measured in g/km. This builds up in 1% steps for every additional 5g/km up to a maximum charge of 35%.
- A 3% supplement is added to diesel cars (up to the maximum charge of 35%).
- Cars without an approved figure of CO2 emissions are taxed according to their engine size.

The official CO_2 should then be rounded down to the nearest band, see below, and the percentage obtained. – Note the two columns for petrol and diesel engines.

<u>Please note some extras; automatic transmission, alloy wheels, wider tyres etc. can have an impact on the Co_2 emissions figure for the standard vehicle.</u>

Tax Years 2005/2008

	Petrol	Diesel
Co2 emissions in grams per kilometre	**Percentage of vehicles P11D price**	**Percentage of vehicles P11D price**
Up to140	15.00%	18.00%
145	16.00%	19.00%
150	17.00%	20.00%
155	18.00%	21.00%
160	19.00%	22.00%
165	20.00%	23.00%
170	21.00%	24.00%
175	22.00%	25.00%
180	23.00%	26.00%
185	24.00%	27.00%
190	25.00%	28.00%
195	26.00%	29.00%
200	27.00%	30.00%
205	28.00%	31.00%
210	29.00%	32.00%
215	30.00%	33.00%
220	31.00%	34.00%
225	32.00%	35.00%
230	33.00%	35.00%
235	34.00%	35.00%
Over 240	35.00%	35.00%

Tax Years 2008/2010

	Petrol	Diesel
Co2 emissions in grams per kilometre	**Percentage of vehicles P11D price**	**Percentage of vehicles P11D price**
Up to 120	10.00%	13.00%
135	15.00%	18.00%
140	16.00%	19.00%
145	17.00%	20.00%
150	18.00%	21.00%
155	19.00%	22.00%
160	20.00%	23.00%
165	21.00%	24.00%
170	22.00%	25.00%
175	23.00%	26.00%
180	24.00%	27.00%
185	25.00%	28.00%
190	26.00%	29.00%
195	27.00%	30.00%
200	28.00%	31.00%
205	29.00%	32.00%
210	30.00%	33.00%
215	31.00%	34.00%
220	32.00%	35.00%
225	33.00%	35.00%
230	34.00%	35.00%
Over 235	35.00%	35.00%

Take this percentage of the P11D price to get the taxable Benefit In Kind (BIK).

The amount of tax you will pay then depends on your highest tax band 20%, 22%, 40%?

Example: For the period 2005-2008 if you are driving a petrol vehicle with a P11D value of £20,000 and Co_2 emissions of 198 you will have a taxable BIK of £5,200 (198 Co_2, rounded down to 195. As it is a petrol vehicle the percentage is 26%, £20,000 x 26% = £5,200)

You will then pay tax, on this taxable BIK of £5,200 at your personal tax rate.

At 40% - £2080 per annum or £173.33 per month

At 22% - £1144 per annum or £95.33 per month

At 20% - £1040 per annum or £86.66 per month

There are special rules and regulations for:

- Vehicles with no approved CO_2 emissions
- Hybrid and alternative fuel vehicles. For cars registered prior to 01/01/1998
- Classic cars

Considerations

In essence, when it comes to company cars, cash allowance schemes do exactly what they say. That is, allow employees to exchange their company car for its equal value in cash. The money is divided up and paid into their salary each month to finance the purchase of a chosen vehicle.

The focus must be to end up with a sum of money that equates to the amount it costs the company to provide the car. To do this, the company must work backwards from the current cost of [providing] the company vehicle."

Employers should also deduct employees' mileage when working out the cash allowance. HM Revenue & Customs allows employees who drive business miles in their own vehicle to claim back tax at a rate of 40p for the first 10,000 miles and 25p per mile thereafter. If a true cost of ownership is to be met, this healthy tax allowance should also be taken into account.

Take out all the costs that are associated with the company car driver, such as tax and mileage allowances, and this figure will be the cash allowance.

Although this is not the only way to calculate the cash allowance, it will help a precise allowance figure to be met and will also ensure that the benefits of having a company car are equal to the benefits of a cash allowance.

However, while cash allowance schemes have been popular in the past, it has been suggested that they are now falling out of favour with employers.

In fact, Employee Benefits research published two years ago revealed that 11% of employers expected to introduce a cash allowance scheme to their employees. The same survey repeated in 2006 found that the number of employers planning to offer a cash allowance scheme had fallen to just 4%. There are some disadvantages to such schemes. Not least is the level of control lost when employees have the option of choosing their own vehicle. This shift of control from employer to employee can have implications for safety, buying power, company culture and image.

3.0 Disadvantages of Cash for Car Benefit & Case Study

As soon as an employer offers the employee the option of cash in lieu of a car, they lose control. The employer can face legal action from an employee if involved in a car-related injury whilst on company business.

With a company car the employer has the control over the make and model and can oversee servicing issues, which is not possible with a cash allowance scheme.

For this reason, Nigel Trotman, relationship manager at Whitbread, decided to alter the car ownership policy at the company so that only senior employees were able to take the allowance.

"Before June 2005, all employees could take the cash allowance, but since then we have changed the scheme because we were concerned [that] those employees driving long miles in company vehicles were not buying cars that were fit for the purpose."

Furthermore, Whitbread was concerned about the effect the cars would have on its company image.

"Many of the employees were not office based and used their cars to meet clients. We wanted to get the control back over which vehicles they could use to do this."

Whitbread also found that company culture could be affected by the type of cars chosen by its employees. "If an organisation supports environmentally-friendly initiatives, providing cash means that it cannot be sure to provide its employees with environmentally-friendly cars. Cash drivers may opt for used vehicles or vehicles with large CO_2 emissions," Trotman explains.

Another key feature of running a company car scheme is the money that can be saved through the bulk buying of cars from one manufacturer. Moving to a cash allowance scheme means that employees have the opportunity to buy vehicles from whichever manufacturer they choose and the cost effectiveness is lost.

What's more, employers are likely to lose touch with the pricing of company cars, making it harder for them to accurately calculate cash allowances being offered to staff.

What about the things you don't always think of

- Just like running your own fleet you still need to check on a regular basis that each driver holds a current valid driving licence.
- If you do offer a company car do you pay for the fuel for the drivers personal miles?
- Your new star employee has a bad credit history and can't finance a vehicle, what do you do then?
- Your employee gets divorced and the partner gets the car!
- Your employee is off long term sick and the car is repossessed!
- Personal insurance for your employee is three times the cost it was on a fleet policy and they can't insure the type of car they were previously driving!
- Do you restrict vehicle choice – will a Porsche Boxster or a 4x4 fit the company image?
- Their vehicle gets 'written off' and they are left with a £3,000 shortfall on what they owe on finance.
- You want to move the employee to an office based role but they are still paying for a car contract on 30,000 miles for year – do you still pay them the additional car benefit in salary?
- Health and Safety regulations mean that you, as the employer, are still legally responsible for the safety of their car. How will you check that the car is safe and regularly serviced? as well as the implications of the Corporate Manslaughter and Corporate Homicide Act.

4.0 Advantages of Cash for Car Benefit & Case Study

Not only does a cash allowance scheme release the burden of administration associated with company cars, it also provides an effective and flexible benefit which can help to increase a organisation's competitiveness.

Yorkshire Building Society has had a cash allowance scheme in place since 1998.

Mary Blackwell, supplies manager at the organisation, believes the reduction in admin is the key advantage of the scheme. "It certainly is easier to administer, we obviously have more to do when we have to organise a vehicle for employees," she admits.

Blackwell expects the number of cash allowances to increase over the next few years because more employees want the flexibility and choice that such schemes offer. However, although this means less administration for the fleet department, the rising number of employees taking cash allowances will mean more of a focus on health and safety.

"We won't lose any responsibility, it will simply mean that more attention will be given to those employees taking the cash allowance. Duty of care is important and we will be working more closely to ensure all cars purchased outside the company are fit for their purpose," she says.

What about the things you don’t always think of

Additional salary - the **net** amount after tax, plus the savings they will make by not paying Benefit in Kind tax will need to be a sufficient incentive for them to opt out or at least keep them as satisfied employees.

We find most employees ‘dissatisfaction’ with any company car scheme is the fact that they <u>feel</u> they are paying too much tax – most forget that the Inland Revenue would most probably take as much, if not more, from any increase in salary – a well researched lower emission vehicle may be all that is required to halve their tax bill.

- Time spent on purchasing and managing the fleet
- Administration and tax reporting
- Class 1A NIC on the Benefit in Kind
- Acquisition and funding cost
- Maintenance and servicing costs as well as Road Fund Licence and Insurance

5.0 Car fuel benefit Taxation

An additional taxable benefit arises if the employee receives free fuel for the company car for their private use.

Private fuel benefit is calculated in a similar manner to company car tax. A scale charge set by the Government (currently £16,900) is multiplied by the same percentage for CO2 emissions as used to calculated the company car taxable benefit. The tax payable is therefore:

£16,900 x CO_2 emissions percentage x employee tax rate

Example for 2008/09

Ford Mondeo 2.0 TDCi Zetec, CO2 emissions 161 g/km, 40% taxpayer

£16,900 x 23% (per CO2 table) x 40% = £1,554.80 annual tax payable

Where private fuel is given up part way through a tax year, the taxable benefit is time-apportioned provided the benefit is not reinstated later in that tax year.

Advisory fuel rates for company cars from 1st January 2008

These figures apply to all journeys on or after 1 January 2008 until further notice:

Engine size	Petrol	Diesel	LPG
1400cc or less	11p	11p	7p
1401cc to 2000cc	13p	11p	8p
Over 2000cc	19p	14p	11p

Petrol hybrid cars are treated as petrol cars for this purpose.

These rates are calculated from the fuel prices in the tables below:

Petrol						
Engine size (cc)	**Mean MPG**	**Applied MPG**	**Fuel price (per litre)**	**Fuel price (per gallon)**	**Pence per mile**	**AFR**
up to 1400	46.7	42.0	102.1	464.3	11.0	11
1400 - 2000	38.5	34.7	102.1	464.3	13.4	13
over 2000	27.9	25.1	102.1	464.3	18.5	19

Diesel						
Engine size (cc)	**Mean MPG**	**Applied MPG**	**Fuel price (per litre)**	**Fuel price (per gallon)**	**Pence per mile**	**AFR**
up to 2000	50.3	45.3	106.3	483.0	10.7	11
Over 2000	37.5	33.7	106.3	483.0	14.3	14

LPG						
Engine size (cc)	**Mean MPG**	**Applied MPG**	**Fuel price (per litre)**	**Fuel price (per gallon)**	**Pence per mile**	**AFR**
up to 1400	37.4	33.6	50.2	228.2	6.8	7
1400 - 2000	30.8	27.7	50.2	228.2	8.2	8
over 2000	22.3	20.1	50.2	228.2	11.4	11

Notes:

1. Mean mpg - miles per gallon - from manufacturers information, weighted by annual sales to businesses (Society of Motor Manufacturers and Traders (SMMT), 2005).
2. Applied mpg - adjusted downwards by 10 per cent to take account of real driving conditions and lower fuel economy for older cars.
3. For LPG, mpg is assumed to be 20 per cent lower than for petrol due to lower volumetric energy density.
4. Department of Trade & Industry's latest petrol and diesel prices (November 2007), LPG from AA website (October 2007).

Will the rate per mile figures change if fuel prices go up or down?

With effect from the January 2008 change, the rates will be reviewed twice a year. Any changes will take effect on 1 January and 1 July but will be published on the HMRC website about 1 month in advance.

HMRC will also consider changing the rates if fuel prices fluctuate by 5 per cent during each six month period.

Employers should make themselves aware of any changes by referring to the HMRC website regularly. It is the primary source of information because it can be updated quickly if necessary.

VAT

Customs will also accept the figures in the table for VAT purposes though employers will need to retain receipts in line with current legislation

What journeys qualify as business travel?

Two types of journey count as business travel for Mileage Allowance Relief (MAR);
(i) those you have to make in the course of doing your job. For example, if you travel from your office to visit a client. If you use your own car, you can get Mileage Allowance Relief (MAR) for your motoring costs, to the extent that your employer does not meet them; and

(ii) those you make to or from a place you have to attend in order to do your job. This does not include private mileage, that is journeys which are ordinary commuting or private travel. For example, if, instead of going to your office, you travel directly from home to visit a client, that is business travel, for which you can get Mileage Allowance Relief (MAR) (unless the journey is, for practical purposes, the same as your ordinary commuting journey, because, say, the client's premises are just down the road from your office).

You cannot get Mileage Allowance Relief (MAR) for your ordinary commuting or for private travel.

'Ordinary commuting' is travel between your home, or any other place you attend for personal reasons (such as the home of a friend or relative) and your usual work place. 'Private travel' is any other travel where the purpose is not business.

It is the employees' responsibility to keep detailed records of all journeys.