



NBTN ADVISORY NOTE 3

COMPANY CAR BEST PRACTICE

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Background

Although we live in an age of Internet communications and environmental awareness, the business car remains a vital business tool and popular employee benefit. When it comes to funding a company car a business either purchases the vehicle outright or leases it, for a fixed amount of mileage over a fixed period of time. There are over three million business cars in the UK, representing just 11% of the total car fleet. However, because of the massive mileage they do – 24 billion miles per year – business cars account for 25% of UK passenger car CO₂ emissions.

Some of the benefits of a company car scheme include:

- Greater control over the CO₂ emissions associated with their drivers
- Greater control over the health and safety of staff driving at work
- Useful means of attracting and recruiting key staff
- Valuable benefit for employees

Setting company car policy

The traditional role of the fleet manager is becoming scarcer, with the responsibility being taken up by other areas of the business, most often the human resources or finance departments. In smaller businesses the car policy is usually handled by a company director. Many companies now outsource the function to a specialist fleet management company, which can negotiate better prices on new vehicles, take away the stress of administering a car policy and keep up to date with changes in legislation and best practice.

Funding company cars

Although the majority of businesses buy their company cars, most company cars are leased. This apparent contradiction is due to the fact that leasing is the preferred funding option for large companies, which have the largest car fleets. There are a number of different varieties of car lease, but contract hire is the dominant method. Here are the main considerations:

Advantages of buying a company car

- You own the vehicle and it appears on your balance sheet
- You are free to sell the vehicle at any time
- If you can pay in cash, there is no cost of finance

Advantages of contract hire

- A fixed, monthly fee covers the cost of funding the vehicle, VED renewal and any servicing and maintenance
- You avoid any risk associated with the vehicle falling in value before you sell it
- You can benefit from the greater buying power of your leasing company
- The car will not appear on your balance sheet
- If there is any private use of the car, you can still claim 50% of the VAT on the leasing cost
- For most vehicles costing under £20,000, it is more tax efficient

Company cars and tax

Changes announced in the 2008 Budget mean that, from 1 April 2009, all motoring taxes will be based on CO₂ emissions. This has given businesses a real incentive to both cut down their use of cars at work and switch to low-emission, and therefore more fuel-efficient, vehicles. There are three main areas of taxation to consider:

Capital Allowances

The new corporation tax regime being introduced on 1 April 2009 will have a major affect on the tax relief firms can claim each year for the depreciation of their vehicles. There is also a major shift in how companies can offset the cost of leasing cars against their tax bill.

- *The cost of owning a company car*

From 1 April 2009, cars with CO₂ emissions above 160g/km will receive a 10% writing down allowance, while those at or below 160g/km will attract a 20% allowance. In effect this means that organisations buying a vehicle emitting 160g/km or below outright will be able to offset twice as much of the cost of its depreciation against their corporation tax bill.

There is an even greater incentive for firms willing to buy vehicles that produce less than 110g/km of CO₂. The government has said that, until 2013, it will allow companies to write off the full cost of these cars in the first year.

- *The cost of leasing a company car*

From next April, companies will be able to offset 100% of their leasing payments against their tax bill if the vehicle is below the 160g/km threshold, irrespective of its capital cost. For leased cars emitting more than this threshold, they will only be able to claim 85% of the financial element of the rental.

- *Calculating fleet costs*

The fact that corporation tax relief is now based on a car's emissions and not its price means that people need to look again at what vehicles they allow on to their fleet and whether they buy them outright or lease them. Currently, the tax advice given to most businesses is that there is a 'tipping point' of around £20,000 - beyond which purchasing becomes more favourable than leasing. But this will change from April 2009, with tax advisers predicting a major change in vehicle acquisition methods: "From a purely financial standpoint it looks as if leasing could become the dominant method of funding for most cars," says Dan Rees, business car consultant at Deloitte & Touche.

Vehicle Excise Duty

The government already uses tax discs as a weapon to punish drivers of high-emission cars, but the six new bands due for introduction in April 2009 will add to their armoury. Rates will vary from zero for cars that emit up to 100 g/km through to £440 for those in 'Band M' emitting more than 256 g/km.

Things get even more uncomfortable for gas-guzzlers in 2010, with the introduction of a first year rate for newly registered cars that will see 'Band M' vehicle owners paying out a 'showroom tax' of £950 (reduced to a standard rate of £455 thereafter).

Company Car Tax

Benefit-in-kind tax for company cars has been based on CO₂ emissions since 2002. Drivers pay tax at their marginal rate (either 20% or 40% from this year) depending on the value of their car and its emissions. Basically, the more your company car pollutes, the more you pay.

The 2008 Budget saw the introduction of a new, lower 10% tax band for cars that produce 120 g/km or less.

Health and safety

Around one in three road accidents involve a vehicle being driven for work. In financial terms this is costing UK industry over £2.5 billion each year, but it is the human cost that is most frightening - around 200 work-related deaths or serious injuries every week.

The arrival of new corporate manslaughter legislation and a tighter focus on the application of health and safety regulations has shown that the authorities are also cracking down in this area.

Work-related road safety needs to be an integral part of any company's health and safety policy. The result of a thorough risk assessment, it should include driver training, journey planning, vehicle maintenance and regular monitoring to ensure that procedures are being adhered to. Many companies that have previously relied on letting employees use their own vehicles at work – known as the 'grey fleet' – are now introducing company cars because they are easier to manage from a health and safety perspective.

Greening your fleet

Selecting vehicles

The easiest way for a company to try and reduce the environmental impact of its business car fleet is to select vehicles with the lowest emissions. With the introduction of a new emission-based corporation tax regime for company cars in April 2009, many firms are expected to use the 160g/km CO₂ tax threshold as a cut-off point for their own business fleet. Whether employees are given a supermini, MPV or executive car, there are plenty of sub-160g/km models to choose from. Here is a list of the top 10 company cars of 2007, all of which have low emission models:

1. Vauxhall Astra
2. Ford Focus
3. Vauxhall Vectra
4. Audi A3
5. Ford Mondeo
6. Honda Civic
7. Ford Fiesta
8. BMW 3-series
9. Volkswagen Golf
10. Volkswagen Passat

There is also a range of in-car technology that can further improve a vehicle's environmental credentials. *Gear change indicators* have been shown to cut consumption by up to 1.5% by showing drivers the optimum time to change gear, thus reducing unnecessary engine revs. *Tyre pressure indicators* can cut fuel usage by 2.5% by ensuring that people don't drive on under inflated tyres, which increases wear and tear and fuel consumption. *Fuel economy meters* give drivers real-time information on fuel costs, journey times and distances, and can encourage them to re-assess their car usage. Companies can also make use of *vehicle telematics*, which use mobile communications and GPS technology to keep track of vehicles and suggest the best route for any journey, cutting fuel consumption.

Fuel-efficient driving

The first step towards more fuel-efficient driving is to assess current fuel costs – using fuel cards or expense claims from drivers – and set a target for reducing them. Steps that can be taken include:

Tips for drivers

- Check your tyre pressure - under-inflated tyres can increase fuel consumption by up to 3%
- Check your revs - change up before 2,500rpm (petrol) and 2,000rpm (diesel)
- Anticipate road conditions and drive smoothly, avoiding sharp acceleration and heavy braking
- Use air conditioning sparingly as it significantly increases fuel consumption
- The most fuel-efficient speed is typically around 55 - 65mph
- Drive away immediately when starting from cold - idling to heat the engine wastes fuel
- Accessories such as roof boxes affect a car's aerodynamics and reduce fuel efficiency
- Avoid short journeys - a cold engine uses almost twice as much fuel
- Plan your journeys to use the shortest route which avoids congestion and road works
- If you're stuck in a jam, switch the engine off. This will save fuel and reduce emissions
- Share journeys with friends and colleagues
- Take care when refuelling and avoid filling to the brim

Tips for Fleet Managers

- Assess fuel efficiency on a regular basis
- Consider carbon offsetting your fuel costs
- Review vehicle choice lists
- Encourage travel planning and alternatives to meetings (e.g. video conferencing)
- Benchmark drivers and incentivise / reward fuel efficient driving

- Review your driver training programme

Travel Plans

A travel plan is a package of measures aimed at promoting sustainable travel within an organisation, with an emphasis on reducing reliance on single occupancy car travel. Many local authorities or fleet management companies can provide help in drawing up a travel plans. Some ideas could include:

- Video/audio conferencing
- Teleworking
- Public transport
- Car hire/car sharing

Contacts for further information

British Vehicle Rental and Leasing Association – The BVRLA represents the interests of the vehicle leasing industry, which supplies UK businesses with more than two million company cars. The BVRLA regulates the industry through a mandatory code of conduct and provides a conciliation service for disputes between its members and their customers. Its website offers guidance on vehicle finance, road safety and reducing road transport emissions. www.bvrla.co.uk; Tel: 01494 434747

Association of Car Fleet Operators – ACFO offers information and training to fleet managers. It runs meetings around the UK for fleet managers to network, share problems and get advice from industry experts. <http://www.acfo.org>; Tel: 01730 260162

Institute of Car Fleet Managers – ICFM offers structured training and career development assistance to car fleet managers, administrators and support staff. www.icfm.com; Tel: 01462 744914

HM Revenue & Customs – HMRC publishes a host of guidance on the issue of company cars and taxation. www.hmrc.gov.uk/cars

Department for Transport – The DfT has a microsite devoted to driving at work and road safety. www.thinkroadsafety.gov.uk

Driving for Better Business – A DfT-funded programme that uses a network of employer champions to spread awareness and best-practice in work-related road safety. www.drivingforbetterbusiness.com

Health & Safety Executive – The HSE has published an excellent guide on managing work-related road safety. www.hse.gov.uk/pubns/indg382.pdf

Energy Saving Trust – A good source of advice, research and best practice on reducing company car fleet emissions. www.est.org.uk; Tel: 0207 2220101

Managing Your Company Cars – Expert Opinion (2009). Editor Colin Tourick ISBN 9781902528267