



HOW MAXIMISING TAX EFFICIENCY CAN SIGNIFICANTLY REDUCE FLEET COSTS

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1 - INTRODUCTION

For many FD's, the cost of administering a company car scheme is uncomfortably high and notoriously difficult to actually pin down.

So what if there was net costing model that not only gave you heads up on the *real net costs* of running your fleet, but also provided the chance to significantly reduce operating costs?

And what if you could significantly enhance the value of the scheme to users at the same time? Fantasy time? Not so.

By selecting from the funding options available to place individual drivers in the most tax efficient vehicle contracts, a company can recover significant sums by achieving the highest levels of tax efficiency.

Whilst the problem has always been how to assess individual drivers at the appropriate time – a big challenge to a company with a large driver population – new software developed by Toomey Opticar dynamically assigns drivers to the lowest cost funding option and manages them through the process of car selection.

The driver benefits because company car tax and BIK liabilities are clearly illustrated and choices are offered to empower the selection of the lowest cost way to benefit from the company car scheme. This paper explains how an **Opticar “mixed funding solution”** works and discusses the issues surrounding the management of a big fleet.

2 - IS YOUR COMPANY CAR SCHEME THE BEST FOR YOUR BUSINESS?

Many companies run a company car policy based around a single funding arrangement, such as contract hire or ECO (Employee Car Ownership), or maybe a simple cash for car option.

For others, a single funding arrangement might be supplemented by a token cash offer. The problem for drivers and the company, is to know who to put into which scheme and why? If there are no guidelines, the choice becomes arbitrary and of little benefit to neither company nor driver.

Whilst a single arrangement can seem to be the *simplest* way to address the challenge of managing a company car scheme, the reality is that a single finance arrangement will most likely be *adding significant cost* to what is already a sizeable overhead burden.

Contract Hire suppliers will explain that drivers prefer the comfort of the traditional company car, whilst ECO scheme providers will tell of the benefits of choice and flexibility.

One thing is for sure - there is no such thing as a single “one size fits all” funding arrangement, and few companies can recognise the true net costs of running a fleet - such is the complexity of providing a company car benefit.

The reality is that a bit of each will provide the ultimate company car scheme, but delivering it is more difficult.

3 - EXAMPLES OF HOW A SINGLE FUNDING SCHEME COSTS MONEY

(i) A company with 500 drivers where a Contract Hire arrangement is the only option

Reality – a large proportion of the 500 are likely to be relatively high business mileage drivers. The company is not benefiting from claiming the AMAPs available against paying for business mileage, which can be used to offset the cost of an alternative car benefit provided to the driver on a monthly basis.

The drivers themselves could be better off driving a car financed through a *structured ‘cash for car’ arrangement* (see later) rather than a company car with its associated Company Car Tax penalties. And quite possibly, the contract hire arrangement is restricted to a list of vehicles and makes that undermines the scheme as a recruitment and retention tool.

So in this case we have a proportion of company drivers costing the company significantly more than they should, driving a car they don’t like, and being hit by Company Car Tax that they needn’t be paying.

Result? Unnecessary costs and dissatisfaction all round.

(ii) A company with 500 drivers where an ECO scheme is the only option –

Reality - If a proportion of drivers are high business mileage drivers, the rest are driving relatively low business mileages who cannot deliver sufficient mileage to offset the costs of funding through claiming the AMAPs available.

In this case, the company will be paying the drivers more in cash than they would through a contract hire arrangement for a similar vehicle, and the drivers are paying more in tax on the cash received than they would be through company car tax

Result? Unnecessary costs and dissatisfaction all round

The following illustrations from the *Opticar mixed funding model* demonstrate the real annual net cost differences for drivers in different vehicles with differing mileage profiles, financed in various ways -

Vehicle	Total Miles pa	Bus. Miles pa	Contract Hire cost pa	Structured Cash cost pa	+/-
BMW 320d ES 4dr 2005 EU4	10,000	7,000	£7,201.26	£7,488.02	-£286.76
Toyota Avensis 2.0 D-4D T3S	25,000	17,500	£6,465.65	£4,096.51	£2,369.14
Mercedes C220d Elegance SE 4dr	30,000	21,000	£10,463.60	£8,728.33	£1,735.27

The company is better off by placing the BMW driver in a contract hire arrangement, whilst the Toyota and Mercedes drivers represent significantly better value by enabling a cash solution.

To focus the mind, if this company provided all 500 drivers (assuming this mileage profile) with the Toyota on a contract hire basis, it would be costing a net £1,184,500 pa more than if it were to offer the same car on a cash basis and claim back the AMAPs.

A hypothetical scenario, but a good illustration of how a single funding arrangement can cost you much more than a mixed funding approach.

4 - A MIXED FLEET APPROACH

We have seen that often, a large proportion of a company's driver population drives a vehicle funded in a way that doesn't match the mileage profile of the employee, therefore costing both employee and employer more than in should.

For a sizable fleet *a mix of company car and structured cash options* will enable drivers to be directed towards the funding arrangement that best suits their mileage profile – representing the lowest cost route to company car provision for all parties.

The result is a fleet with the right economic balance between company car and cash drivers, minimising its cost exposure and providing the best financial arrangement for drivers.

For large sized fleets (typically 100+ drivers), the savings can run well into six figures (see above illustration) – the bigger the fleet, the more the saving which could be used to -

- (i) Plough back into the scheme to enhance the employee benefit if recruitment and retention is a priority.
- (ii) Report directly to P&L if overhead savings are the objective.
- (iii) A combination of company savings and enhanced car benefit.

5 - IDENTIFYING THE LOWEST COST ROUTE TO PROVIDING A COMPANY CAR?

The Opticar model profiles each company driver according to anticipated annual business mileage and calculating the AMAPs (Approved Mileage Allowance Payments) applicable should the driver select a cash option instead of contract hire where Company car tax applies.

The model illustrates whether or not the payable AMAPs against business mileage will be enough to subsidise the cash budget payable to the employee in a cash-for-car arrangement, or whether it would be more cost efficient for the company and driver to go for the company car option.

Often the dilemma for an employee is in deciding which route to take – many drivers prefer the perceived ‘safety’ of the traditional ‘company car’ and choose accordingly. Some think that they can strike a better deal with cash and prefer to select their own vehicle rather than be restricted to the company car list.

The Opticar model clearly demonstrates a precise financial position to individual drivers by showing the net monthly cost of a chosen vehicle in each of the funding options available - making that decision a lot easier.

6 - TAX EFFICIENCY THROUGHOUT THE CONTRACT PERIOD

Once a decision on the funding arrangement is made and a vehicle allocated, drivers need to submit an auditable log of business mileage each month to permit the calculation of all usable AMAPs in that period to offset costs, and to comply with the strict HMRC requirements relating to the auditing of tax and NICs.

The Opticar model provides an online facility for all drivers to do this. Once the monthly mileage submission cut off date is reached, the model calculates the precise tax and NI position for each individual driver and provides a data-file for inclusion in the monthly payroll.

Effectively, the company is now achieving 100% tax efficiency by accurately calculating and claiming every available AMAP for each driver each month for inclusion in the monthly payroll. There will be no under-claims and the threat of an unwelcome tax bill for over-claims at year end is nullified.

7 - THE BENEFIT OF STRUCTURED CASH v SIMPLE CASH FOR CAR

A structured cash option, rather than simple ‘cash for car’, is where the budget paid to the driver includes a specific amount to cover finance, motor insurance and the cost of a comprehensive maintenance package for a particular choice of car.

Sometimes referred to as a PCC (Personal Car Contract), the driver gets all the security of the company car arrangement but still owns the vehicle with a finance agreement in their name, the benefit of a free choice of vehicle (subject to any constraints that the company may wish to impose) and no Company Car Tax.

It is also advisable for cash drivers to be included on the company motor insurance scheme. This way, the company knows that its drivers are all insured whilst on company business.

The budget paid by the company doesn't change – if the driver chooses to trade up he does it at his own cost – whilst the company uses the AMAPs accrued against business mileage to offset the cash budget.

Another big advantage of a structured cash option is that the company can demonstrate that it is fulfilling a duty of care because it knows that its drivers are representing the company in fully insured and maintained vehicles. (See 'Duty of Care')

8 – DUTY OF CARE

One other issue that really ought to be considered is that of corporate responsibility.

Many companies have a simple cash for car offering, requiring no administration except the payment of a monthly amount through payroll. The driver takes responsibility for making all arrangements relating to the vehicle thereafter (tax, insurance, maintenance etc),

So many companies offering simple cash have no idea what cars are being driven, what condition they are in, how old they are, and whether they are taxed and insured; thus opening themselves up for possible legal action when the Corporate Manslaughter Act takes effect from April this year.

So if cash is on your agenda, the structured version would be infinitely wiser as it ensures that all cash drivers are representing the company in fully insured and maintained vehicles of a certain age (should it choose to stipulate an age limit).

9 - THE OPTICAR MIXED FUNDING MODEL

The Opticar Mixed Funding model is already in use across a variety of large and diverse corporate fleets with a track record of harmonizing group car policies and delivering the savings through maximized tax efficiencies as described above. Case studies are available.

Aside from the cost modeling and mileage logging discussed in this paper, Opticar provides a complete fleet management solution from vehicle selection through to end of contract disposal. Partner companies are as hands on or hands off as they like.

To summarize, the Opticar mixed funding model provides the following 7 key benefits to large corporate fleet operators -

- 1. Directs drivers to the lowest cost car funding option, creating significant savings**
- 2. Benefits drivers by showing the most tax efficient way to drive a 'company car'**
- 3. Enhances the company scheme as a genuine employee benefit**
- 4. Reduces in house administration for the corporate customer**
- 5. Harmonizes company schemes, particularly in merger and acquisition situations**
- 6. Provides a fully HMRC compatible solution**
- 7. Provides a full service fleet solution**

Toomey Opticar is the leading mixed fleet specialist with a fully integrated full service web based solution. We can review and overhaul your current scheme, and propose remedial action where appropriate. If you have HMRC worries, these can be addressed and remedied.

Existing relationships need not be ended – you can keep with your current vehicle suppliers if preferred but benefit from identifying the lowest cost options for your drivers and providing them with a vehicle to suit.

Opticar offers an integrated driver training package aimed at fulfilling company Duty of Care responsibilities by taking company drivers on an online driving awareness assessment providing remedial action where appropriate.

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