

CBS Viewpoint by Martin Maguire, Managing Director



I would like to take this opportunity to wish all our readers a Happy New Year and welcome you to our new look Perspective newsletter. Car Benefit Solutions (CBS) had a very busy year in 2006, significantly increasing the number of cars that we fund and manage whilst at the same time developing new solutions for clients, including; creating cost efficiencies, efficient transfers of Employee

Ownership (ECO) schemes and cost effective risk management strategies.

We are currently living through changing times and the world of car provision is no exception with HM Revenue & Customs (HMRC) review of ECO schemes, the further introduction of environmental based taxes and the impending implementation of health and safety legislation. CBS will study these proposed changes and develop the solutions

necessary to allow clients to continue to deliver an optimum benefit to employees and manage risks accordingly.

CBS will be conducting a survey again this year to enable us to keep up to date with the issues and concerns that companies currently have in relation to the provision of car benefits. The results of this survey will be published and we are also planning to hold best practice workshops in the autumn to look at what measures can be introduced to address any issues in the most effective manner.

The Perspective will see a transition from its current printed form to an e-newsletter later in the year. This will be more interactive with links through to our updated website.

Finally, CBS continues to be committed to providing the highest quality service to clients, to develop innovative solutions and to remain at the forefront of car benefit provision.

Budget Report

The long awaited Pre Budget Report was published on 6th December. As expected, this report contained a statement regarding the HMRC review of ECO schemes. This however turned out to be a holding statement, HMRC deciding to continue with their review by conducting further consultations with the industry through early 2007.

HMRC did however imply that there could be some changes to the legislation that governs some aspects of ECO schemes but no details were given. The object of any changes would be to "strengthen environmental incentives and protect Exchequer revenues".

HMRC have stated that the average CO₂ emission for ECO cars is 20g/km more than the average of 167 CO₂ g/km. CBS have reviewed the ECO fleets that we fund and manage and found that the average CO₂ emissions is marginally above the average for company cars but not nearly as high as the 20 g/km suggested by HMRC. This result also needs to be considered within the context of the level of benefit being provided, under ECO schemes the benefit tends to be higher than the average for company cars. Other ECO providers have also commented that they have similar results to CBS.

CBS believe that, having conducted their initial review, HMRC have discovered that ECO arrangements are far more varied than

they originally thought, reflecting the different reasons for their implementation and the different structures used to meet different objectives.

CBS also believe that the number of cars in structured ECO schemes is significantly less than the 150,000 HMRC had originally anticipated. Therefore, if there are no significant environmental issues compared with company cars and the overall "tax take" is also not significant, taking into account all taxes including indirect taxes and the number cars involved, then a clear course of action may not be available to HMRC.

It should be noted that at a meeting between HMRC and members of the CBI Tax Committee, when asked by HMRC what would they do if the benefits of ECOs were removed, the majority of members responded that they would move to cash arrangements. This could result in higher CO₂ emissions as cash takers are more likely to purchase older cars and no real tax disincentive applies.

In conclusion it appears that ECO schemes are here to stay for now but HMRC may make some changes. They have already scheduled meetings in January for further discussions with the aim of including any changes in the March Budget. In addition HMRC may well turn their attention to the compliance of existing schemes. Some of the questions they have issued for the January meetings are focused on "blended" ECO schemes, which in some cases are structured in a form that CBS do not consider tax robust. CBS also believe there are ECO schemes implemented without full disclosure to HMRC and which may not be correctly recording all taxable benefits.

CBS will keep you informed through Perspective and our Budget Report of any changes proposed by HMRC and the implications to ECO schemes. If you wish to understand the risks within your current ECO arrangements then please contact us and our consultancy team will be happy to help you.

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Private Fuel

The provision of private fuel to employees who drive company cars is potentially very expensive when compared to delivering the same benefit under an ECO scheme.

In the "all or nothing" environment of private fuel, whilst a company car driver retains his or her entitlement to private fuel, then should they receive just a single pound of free fuel a full year's tax liability shall arise. Consequently, this also means that the employer must pay Class 1A NIC on a full years benefit and not just the amount of free fuel provided.

This places significant pressure on the accuracy of the employer's expenses and

reporting procedures to ensure that every single pound of free fuel provided is repaid by those who do not wish to be deemed to be receiving the benefit. Remember for the employee to "breakeven" they often have to travel in excess of 12,000 private miles per annum.

A strict interpretation of recent changes in VAT legislation, which now prevents employers recovering VAT on business fuel unless they can support this claim with a valid VAT invoice, has increased the risk to both employee and employer. Many companies have switched to using fuel cards to facilitate the recovery of VAT on business fuel costs. However, employees who do not receive free private fuel by way of a benefit must reimburse their employer for the full cost of the fuel (including VAT).



Green ECOs

Those who wish to knock ECO schemes and the significant benefits they offer both employer and employee often label them as encouraging higher polluting "gas guzzlers".

However in today's environment where everyone is aware of the environmental

challenges that potentially lay ahead, CBS is leading the market with bespoke "Green ECOs".

Not only are all of CBS's ECOs designed to meet the individual financial and operational requirements of its clients they can also include an array of features that encourage employees to select vehicles which are kinder to the environment and also to drive fewer business miles. CBS has designed ECO schemes which have average CO₂ emissions significantly lower than the average company car emissions which according to a leading industry publication is 167 CO₂ g/km.

This may come as a surprise to many who believe that high business mileage is a prerequisite to a financially successful ECO. However, the tax efficient structures designed by CBS have dispelled this popular misconception and at the same time

Again, failure to repay 100% of the private fuel costs can result in a full years tax and Class 1A NIC liability arising.

Compare this same situation to an ECO environment where the employee does not pay a fixed scale charge tax liability on private fuel but only "pays" tax on the actual amount of free fuel they use. So, if they only receive £1 of free fuel, tax is only due on £1. The difference in tax and Class 1A NIC on a typical essential user vehicle under the two scenarios can amount to nearly £2,000 per annum.

Further to this, the flexibility under ECO schemes allows employers to ask for whatever contribution towards private fuel they deem appropriate (e.g. 50% of private fuel costs) and not simply "all or nothing".

Having considered the delivery of private fuel for both company and ECO cars, CBS also rejects the suggestion by a leading accountancy practice that the majority of ECO savings are attributable to private fuel. Due to the high cost to both employer and employee associated with provide private fuel as a benefit, employers who do provide this benefit are very much in the minority and this is equally true of those employers who operate financially efficient ECO schemes.

CBS can offer employers advice on their own fuel policy and also assist in the design of robust operating procedures.

lead to potentially significantly reduced vehicle running costs. In fact, some CBS ECOs do not rely at all on business mileage or the efficiencies that Approved Mileage Allowance Payments (AMAP) can deliver.

For nearly all companies the implementation of a "Green ECO" need not lead to the deterioration in the perceived level of benefit or car choice offered to employees, more so the subtle guidance of employees towards a greener direction.

CBS now also includes a review of the environmental impact of a company's car benefit provision as part of its highly successful ECO and Company Car "Health Check" programme. This programme also analyses in detail how vehicles are currently provided and how an employer can obtain greater efficiencies and ensure total legislative compliance.

ECO - Myths & Misconceptions Examined



With the recent commentary around the HMRC review of ECO schemes in the UK, a number of widely held viewpoints continue to effervesce from the fleet community. These include:

- ▲ the degree of difficulty in changing supplier
- ▲ the contribution of private fuel benefit
- ▲ the criticality of high business mileage to ECO viability.

Contrary to popular opinion, moving from one ECO provider to another can be less protracted than moving between leasing arrangements.

Under leasing arrangements control resides with the lessor (leasing company) and not the lessee (customer) and as such a transition is likely to take a full rotation cycle if substantial early termination charges are to be avoided.

However, under ECO arrangements it is possible to transfer between providers without incurring early termination charges and with minimal penalties and therefore it need not take a full rotational cycle to complete the transition process, a "big bang" option being available.

CBS has developed structures that make this possible and has completed a number of successful transitions.

Although increasingly unfashionable due to the onerous taxation burden, private fuel benefit normally represents a source of savings potential when implementing an ECO. This arises from the employees effectively "self-funding" the fuel they draw for private use under ECO up to the level of their previous tax liability and their employer paying the difference (and settling the tax consequences) to ensure total neutrality for participating employees.

There is a view that this potential saving is realisable without ECO implementation.

In our opinion, this is something that requires extreme caution. Remaining with company cars will effectively give rise to a "buy out" scenario with difficult employee communications prompted by the perception of benefit erosion. ECO avoids this as severance of company car taxation simultaneously releases private fuel tax liabilities and employees are simply left to make a rational economic decision based on their individual circumstances. Should they wish to retain the benefit, they simply make a defined contribution from their tax saving to their employer under ECO.

The assumed importance of high business mileage and the associated tax shelter afforded under Approved Mileage Allowance Payments (AMAP) is another widely held opinion on successful ECO prerequisites.

However, all other things remaining equal, it is the total contract mileage that dictates vehicle operating costs. What this means is that by identifying a "Perk Driver" sub-population on a lower contract mileage, it may be possible to grant full participation across eligible employees.

Additionally, by considering the global savings potential (i.e. cars, cash takers and private fuel benefit) across an entire fleet, full participation could be granted and the burdensome additional administration and potential for employee discontent caused by the widely promoted "blended" funding arrangements, avoided.

A consequence of the HMRC review may be strict compliance audits of ECO schemes. So called "blended" schemes, where employees select a car and the company decides whether it is a company car or ECO car depending on the cost to the company, may come under scrutiny under existing case law.



ECO Transition

In the summer of 2006 a major client of CBS announced the sale of one its major operating companies. The business divestment included 220 eligible employees who were participating in a self-funded ECO scheme and now faced the possibility of moving from a highly regarded employee benefit to company cars.

CBS was tasked with positioning a range of options in terms of future car benefit provision and, after a brief consultation, successfully executed a £3.3M refinance exercise that facilitated benefit continuity for the aforementioned employee base. This was achieved without any party incurring any early termination charges and associated tax costs which would have totalled £1.2M. The transition also enabled

employees to continue with the same level of benefit for their existing cars.

The current scheme is a blueprint of the original in terms of "look and feel" but comes with the additional benefit to the company of off-balance sheet finance and reporting and operating risks taken by a finance company owned and operated by CBS.

Employees continue to enjoy all of the original benefits such as risk free vehicle provision and nominated service outlets. As a consequence of this successful implementation the new parent company is considering implementing the ECO as the preferred benefit methodology across the group.



Whats On in 2007

March

CBS Report on Budget implications
To receive the CBS Budget Report please register to receive Perspective by email as detailed below

May

CBS Fleet Survey

June

CBS Fleet Survey Results

June

CBS Website re-launch

September/October

CBS Best Practice Workshops



Dates For Your Diary

January 19 2007

Payment Tax & NIC for quarter to 5 January

February 2 2007

Form P46(cars) for quarter to 5 January submitted by this date

March 2007

Budget Report

April 5 2007

End of Tax Year 2006/07

April 19 2007

Payment Tax & NIC for quarter to 5 April

May 2 2007

Form P46(cars) for quarter to 5 April submitted by this date

May 31 2007

Issue P60 to employees by this date

July 5 2007

Agreement of PAYE Settlement Agreement 2006/07 by this date

July 6 2007

Issue Form P9D/P11D to employees by this date

July 19 2007

Payment Tax & NIC for quarter to 5 July

July 19 2007

Payment of Class 1A NICs shown to be due on Form P11D(b) by this date

August 2 2007

Form P46(cars) for quarter to 5 July submitted by this date

October 19 2007

Payment Tax & NIC for quarter to 5 October

October 19 2007

Payment of PAYE Settlement Agreements for 2006/07

November 2 2007

Form P46(cars) for quarter to 5 October submitted by this date



Contact Us

If you would like to talk to one of our specialists to discuss an area covered in this newsletter or another topic please contact us by:

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If you do not wish to receive any future newsletters or other communication from CBS, please inform us by email at perspective@carbenefitsolutions.co.uk or write to us at the above address.