

# CBS perspective

## Motor Insurance Alternatives

Recently published statistics have highlighted that 80% of UK companies are experiencing creeping Motor Insurance costs for their car fleet, with annual increments of 20% the norm rather than the exception.

In this market of rising fleet insurance premiums, many organisations are considering making the switch to 'self-insuring' their car fleet rather than pursuing the traditional arrangement of obtaining cover through a registered UK insurer. The burning question for all these companies is 'What are the key legislative considerations of this potential action'?

Making the move to self-insurance can make sound financial sense and generate significant savings to the company year-on-year. However, depending on how companies source and provide employees with car benefit and what the constituent parts of that benefit package are, such a change could result in the company failing to comply with the Financial Services and Markets Act 2000 (FSMA 2000). The FSMA 2000 lays down

strict rules to govern regulated activities such as selling and providing Motor Insurance, stating very clearly that to do so an entity must have the correct registered status.

For those employers operating structured Employee Car Ownership (ECO) schemes or companies who offer Motor Insurance to employees taking a cash alternative (normally for the purpose of mitigating the risks of Corporate Manslaughter claims), the FSMA regulations are of primary concern.

To ensure full compliance with the FSMA 2000, an employer must have registered with the Financial Services Authority (FSA) to become an 'authorised person' and therefore eligible to provide Motor Insurance in the manner described

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### Free of Charge Financial Assessment

*This service is designed to quantify the existing operating cost borne by employers relating to car fleet provision. Through extensive scenario exploration, CBS will ultimately recommend the most cost effective future provision method together with a reconciliation of where any potential economies could be realised and key sensitivities arising from assumptions made. Unlike some other providers, CBS always deliver a comprehensive assessment including secondary taxation and opportunity cost implications.*

**If you are interested in this service, please contact us on 0870 751 9872 for further information.**

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above. The complications of providing this benefit to employees have been further compounded by the announcement by the FSA that registration applications must be submitted by the 13th July 2004 to guarantee authorisation by the 14th of

continued on pg3

## Managing Directors Viewpoint



Martin Maguire,  
Managing Director

With the changing market demographics around diesel vehicle popularity in the company car arena, many forward thinking employers are currently exploring ECO viability in anticipation of a change to the Scale Charge assessment rules. These rules may present a potential 'tax trap' for those drivers who have chosen diesel vehicles with a view to mitigating the associated company car tax burden.

It is the opinion of many that a reported 37% increase in diesel vehicle registrations since the

introduction of emission-based assessment will not have escaped the Chancellors notice when designing future policy. When considered in conjunction with the rising operating expense of diesel models compared with petrol equivalents (caused by the aforementioned supply shift) it is evident that ECO implementation is firmly back on the benefits agenda.

I hope you enjoy this edition of the Perspective. ■■■

# Topical Issues

In recent months CBS has conducted extensive research into companies currently operating Employee Car Ownership (ECO) schemes. The objective of this exercise was to identify, collate and address the concerns of these organisations based on their experience of operating these arrangements over time.

Our findings have highlighted a number of areas that cause frustration for employers who have chosen this particular benefit methodology. One of the main issues highlighted was the potentially onerous administration associated with ECO operation.

Compared with company car fleet administration, our research findings have illustrated that many organisations who have adopted ECO arrangements are concerned about the subsequent burden of workload including but not limited to the following disciplines:

- **Business Mileage Collection**
- **AMAP calculation and payment**
- **Payroll processing**
- **PAYE Settlement Agreements (PSA)**

## CBS Poll

In each issue of the CBS Perspective we will be posing a topical question and asking for your opinion. This issues question is.....



*What is your preferred method of setting car entitlement for different employee grades?*

- **Benchmark car P11d values**
- **Benchmark car running costs**
- **Percentage of salary**
- **Market place comparison**
- **Other (please specify)**

Submit your response on our website at [www.carbenefitsolutions.co.uk](http://www.carbenefitsolutions.co.uk). The results of this Poll will feature in the next edition of CBS Perspective.

### Results from previous CBS Perspective's topical question

In the last edition of CBS Perspective, the Poll question asked fleet decision makers what costs they find most difficult to control and budget for. The results showed that the areas of most concern when it comes to managing costs are early terminations and fuel costs.

Early termination costs are particularly difficult to control as they are they are determined by a number of factors. Firstly, the quantum of any potential early termination cost will depend on when

during the term of the contract the termination takes place. Generally speaking, the earlier in the contract the termination takes place the higher the early termination cost is likely to be. The often unexpected nature of employees exiting the organisation of their own volition can make such events difficult to foresee and ultimately budget for.

Secondly, the costs will also depend on the ability of a car to be reallocated to a second employee. This in itself will depend both on the nature of the early termination, (i.e. if the leaving employee is to be replaced), the used vehicle profile (age and mileage, suitability etc) and the benefits policy relating to treatment of new starters probationary periods. Your responses also highlighted that these decisions are often taken by managers who do not own the relevant budget.

With a sponsored Employee Car Ownership (ECO) scheme, unless specific tax compliant mitigation structures have been put in place, the early termination cost are exacerbated as they are required to be engrossed for tax and NI where they are paid on the employees behalf. Many employers we engaged with were surprised to hear that, despite the fact that reallocation of a vehicle under ECO may avoid the economic penalty of an early termination event, it doesn't remove the resultant tax liability.

## ask the expert

If you have a question you would like to ask our experts, please send your questions to [mail@carbenefitsolutions.co.uk](mailto:mail@carbenefitsolutions.co.uk) alternatively visit our website.

This issues questions include;

What is the Inland Revenue's position on the application of PAYE Settlement Agreements for the purpose of reconciling Approved Mileage Allowance Payment (AMAP) amounts under structured ECO schemes?

Since April of 2002 AMAP (previously referred to as Inland Revenue Authorised Mileage Rates and formerly the Fixed Profit Car Scheme) rates have been adjusted both in terms of their quantum (now 40p per mile for the first 10,000 business miles and 25p per mile thereafter) but also in terms of their statutory nature.

What this means is that employers

In the opinion of most participating businesses, the overhead attributable to these components of ECO operation is both significant and something they were unaware of through the process of original engagement and supplier appointment.

## CBS innovation

By harnessing the latest technological advancements, CBS recently reduced the administrative overhead of a high profile ECO scheme by in excess of 80%.

As pioneers of contribution based schemes (i.e. employee allowances become 'notional' and rarely result in the payment of cash or the collection of vehicle repayments), CBS have managed to eradicate the requirement for the majority of transactions to be performed within Payroll.

operating this type of scheme who have previously had the administrative convenience of paying cash allowances on a net basis and then reconciling these amounts with actual business mileage travelled annually in arrears are likely to see this convenience withdrawn. The rationale is that dispensations on statute are not permissible.

CBS have pioneered products that can accommodate this change without the need for incremental administration on behalf of the employer.

My current scheme features the Interest Free Loan (IFL) deposit facility up to a maximum £5,000 but this is proving to be a drain on the company's financial resource. What options are available for alternative funding of these arrangements?

Historically, the tax efficiencies arising from the use of an IFL facility have been achieved by virtue of a loan between the employer and the eligible employee. This gives rise to a debtor in the balance sheet of the employer for the duration of the employee's car loan. At termination, the loan facility is repaid to the employee (and remitted to the employer) from the vehicle provider.

In order to successfully navigate the accounting standard FRS5, any employer wishing to remove the necessity to fund this facility from their own resources must do so by selling the receivable on a non-recourse basis. This has historically been achieved by virtue of debt-factoring arrangements but following feedback from major employers frustrated at the inability to have interest charges credited in a circumstance of early termination, CBS have recently developed a more efficient mechanism that still complies with derecognition status.

Other initiatives such as automated mileage collection and reporting have further helped achieve the desired state of minimising employers involvement with scheme operation. ■■■

## Customer Testimonial

*"CBS designed and implemented a bespoke ECOP to meet all our corporate objectives and ultimately provide our employees with a highly desirable car benefit. I have been exceptionally impressed by the innovative culture and creative approach CBS have demonstrated throughout this project. The solutions they have developed are robust, efficient and easily administered. The combination of their professionalism and strong customer service ethic means we would recommend CBS as a business partner."*

*Heather Craven  
Group Finance Director, Birse plc*

I've heard that there is a minimum fleet size before a Employee Car Ownership (ECO) scheme proposition becomes economically viable. Please could you advise the minimum criteria?

As a general rule, fleet size is one of a number of factors for consideration. Additional factors include business mileage, attrition rates, the current benefit policy and the mix of marginal rate tax payers (22% or 40%) within the eligible employee population.

Some providers will insist on a minimum fleet size (typically several hundred units) in order to realise their pre-sale costs over time. At CBS, assuming the proposition makes sound financial sense for the employer, we look to accommodate fleets in excess of 50 units.

I have read many articles on the financial benefits to organisations from implementing an ECO scheme. Please could you summarise where the savings come from?

The short answer is the difference between the current and projected costs of operating the fleet!

Assuming the current fleet is leased as opposed to purchased outright, costs associated with company car provision normally include:

- Finance Rentals
- Maintenance Rentals
- Disallowable VAT
- Employers N.I. Contributions
- Corporation Tax Restrictions
- Motor Insurance
- Fuel Costs
- Opportunity Costs of Funds

## Motor Insurance Alternatives

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January 2005 deadline. From this date, compliance with additional European legislation will become mandatory.

In order to avoid companies having to potentially sacrifice significant financial savings that could result from self-insurance, Car Benefit Solutions Limited (CBS) has developed a new structure that leaves the company in a win-win situation by successfully navigating the aforementioned compliance issues without any erosion of the employee benefit package. The solution can also reduce the associated administration burden and, if desired, could aid consolidation of supply arrangements.

Critically, the solution CBS has developed does not impact on the level of risk a company either currently has to or wishes to assume in the future and allows the flexibility for companies to change their risk position over time. Furthermore, with reference to any employees taking cash and making their own arrangements, the company can be satisfied that employees are adequately insured for business use of a privately owned vehicle.

CBS recently implemented this solution with a major client following a comprehensive due diligence process that featured extensive dialogue with leading UK insurance experts. ■■■

Assuming that the ECO scheme will be sponsored by the employer and feature cash allowances paid with reference to the Approved Mileage Allowance Payments (AMAP), the future cost base would encompass:

- Cash Allowances
- Tax Settlements (gross-up)
- Motor Insurance
- Fuel Costs
- Opportunity Costs of Funds

The difference between these two cost bases will represent the financial impact to the sponsoring employer from making the transition. In addition to this, the Scale Charge Tax previously suffered by the employee is now redirected as their contribution under the new arrangements, effectively reducing the quantum of cash allowance required from the employer to serve up a position of financial neutrality.

Should the employer's policy include Private Fuel benefit, incremental savings normally result from the change.

CBS's free of charge Financial Assessment facility will quantify what this means for any given circumstances and, unlike other providers, will also consider the impact of secondary tax costs arising from the potential sponsorship of early termination and excess mileage in the future state. ■■■

# Car Ownership Bulletin Board

In recognition of the fact that many individuals charged with responsibility for workplace vehicle provision find themselves with considerable resultant time pressures, CBS has compiled the following diary prompts for your information.

2004	July 6th	July 6th is when forms P11d and P11d (b) must be submitted, accurately recording all benefits and expense payments that are not covered by a dispensation or PAYE Settlement Agreement (PSA). These include every variety of vehicle benefit and mileage reimbursement or payment for company and private owned cars. The correct calculation of Class 1A NIC on company car related benefits depends upon it. An incorrect form P11d carries with it a potential penalty of up to £3,000.
	July 19th	July 19th is the time to pay the company's Class 1A NIC liability for 2003/04 otherwise interest can be charged by the Inland Revenue at a rate of 6.5% per annum.
	August 2nd	August 2nd is the date by which form P46 (car) must be submitted to record details of movements in company car fleets or changes in beneficiaries' status in the quarter to July 5, 2004. Subsequent returns will be due on November 2, February 2, and May 3rd 2005.
	August 31st	August 31st is the time by which the Inland Revenue is likely to request companies to advise them of their calculations of residual liabilities to be settled under a PSA for 2003/04. This may include car-related benefits, for example mileage payments not reported on form P11d nor taxed through the payroll.
	Oct 19th	October 19th is the time to pay the company's income tax and Class 1B NIC liability for 2003/04 under a PSA
2005	April 19th	April 19th is the date by which any payments of Pay As You Earn (PAYE) and Class 1 National Insurance Contributions (including those that might arise from car or mileage allowances) need to be submitted to the Inland Revenue for 2004/05.
	May 19th	May 19th is the deadline for filing end-of-year return forms P35 and P14 for 2004/05, which should include correct details of Class 1 NIC liabilities and PAYE arising in respect of car allowances or excess business mileage payments. Automatic penalties are charged if returns are not received by May 26, 2005 and employees must have their copy of P14 details (form P60) by May 31, 2005.

## Next Edition

The next edition of the CBS Perspective will be available in September 2004.

If you would like to submit a question or discussion topics please send them to us at [mail@carbenefitsolutions.co.uk](mailto:mail@carbenefitsolutions.co.uk).

You will find the result of our CBS Poll in the next edition and on our website at [www.carbenefitsolutions.co.uk](http://www.carbenefitsolutions.co.uk).

If you would like your next CBS Perspective electronically please contact [ssopala@carbenefitsolutions.co.uk](mailto:ssopala@carbenefitsolutions.co.uk).