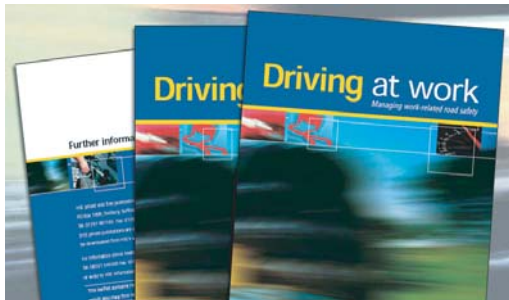


# CBS perspective

## Health and Safety a top priority

Health and Safety is rapidly becoming the issue causing most concern to those individuals responsible for vehicle fleets in the UK.

The intention to introduce corporate killing legislation as stated in last autumn's Queens Speech, has attracted much attention in the media, although the bill was not laid before Parliament prior to Christmas as was originally proposed and this will now only happen after the General Election, if at all. However, legislation already before Parliament such as the Road Safety Bill and the Health and Safety at Work (Offences) Bill is likely to have a far more significant impact on the operation and management of vehicle fleets.



According to the Health and Safety Executive, approximately one third of all road traffic accidents involve someone who is at work at the time. Furthermore approximately 3,500 people are killed

each year in road traffic accidents and 40,000 are seriously injured. Therefore it is not surprising that for the majority of companies the most likely cause of accidental death in service of an employee is in a road traffic accident, with approximately 20 fatalities per week.

The Health and Safety at Work Act 1974 lays out your responsibilities as an employer. The act requires you to ensure, so far as is reasonably practicable, the health and safety of all your employees while at work. In addition to this fundamental requirement, you also have a responsibility to ensure that others are not put at risk by your work-related driving activities.

The statutory instrument that sets out the requirements to meet your duty of care obligations under the Act is the Management of Health and Safety at Work Regulations 1999. In a nutshell, this states that employers need to:

- Have a comprehensive road safety policy supported by top management
- Have road safety management procedures in place, including risk assessment and implement safe practices that eradicate or minimise identified risks
- Ensure employees are given relevant information, training and supervision to be safe on the road
- Regularly audit the safety of journeys and amend policies and procedures accordingly if new risks are identified

In addition, a robust car policy addressing all of the above points must be implemented and made available to all employees. Responsibility and accountability for the enforcement of the policy must be attributable at director level.

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### Managing Directors Viewpoint

### Budget 2005



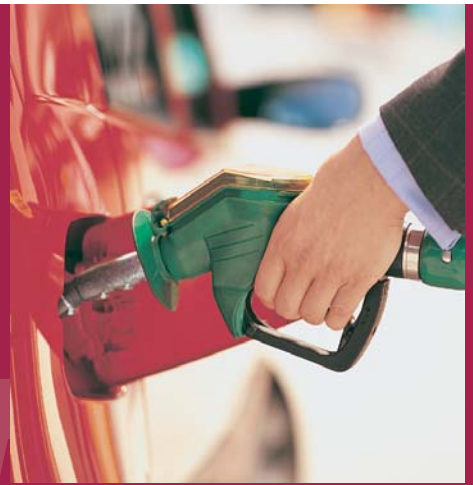
Martin Maguire  
Managing Director

In his budget speech, the Chancellor of the Exchequer, in accordance with his own policy of announcing company car tax changes two years in advance, stated that the rate of company car tax is to remain frozen at the same level as 2005-06 and 2006-07. This is not a surprise when taking into account the forthcoming General Election and the fact that the 2005-06 rates represent an average increase in the rate of company car tax of 20% from the introduction of the CO<sub>2</sub> emissions basis in 2002-03. However, the Chancellor has confirmed that the 3% diesel supplement for those cars meeting Euro IV emissions standards will be removed for cars delivered on or after 1st January 2006.

Contrary to the predictions of some leading pundits in the vehicle leasing industry, there was no mention of reducing the Approved Mileage Allowance Payments (AMAP) that employers can pay to employees who drive their own car for business purposes. The ability to make these payments can significantly increase the efficiency of an Employee Car Ownership (ECO) scheme. There has also been no movement in the Inland Revenue Advisory Fuel Rates i.e. the rates at which employers can reimburse company car drivers for business travel, something the aforementioned individuals were suggesting should be increased.

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# Topical Issues *in Focus*



## Chancellor targets Euro-4 Diesels

The recent announcement that Euro IV compliant diesel vehicles registered after 1st January 2006 will not benefit from the current 3% diesel supplement has given rise to a sharp intake of breath for company car drivers, their employers and vehicle manufacturers alike.

Motor industry sources have reported rises in diesel registrations in excess of 35% since the introduction of the emissions-based tax regime in April 2002 with many pundits attributing the increases mainly to company car drivers selecting diesel over petrol equivalents due to their relatively low CO<sub>2</sub> output and lower personal tax costs.

Until this most recent announcement, the environmental benefits of those diesel engines that complied with stringent emissions standards were recognised with the aforementioned 3% supplement when compared with more dated, higher polluting powerplants.

Commenting on the developments, CBS's Managing Director Martin Maguire remarked:

"It is clear the rise in demand for diesel vehicles amongst employees with company car benefit eligibility has not escaped the Chancellors notice. This effective policy

reversal represents a material increase in the tax take with absolutely minimal effort.

For many employees, the 3% increase their car benefit charge equates to a relative increase in their tax costs of up to 20%, causing benefit erosion and ultimately employee discontent. Employers will suffer similarly due to corresponding increases in Class 1A National Insurance contributions, forcing many to rethink their benefit provision methodologies." ■■■

# CBS Poll

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

*If you were reviewing the method of delivering car benefit which of the following would you select?*

1. Company Cars
2. Structured ECO
3. Personal Contract Purchase (PCP)
4. Gross Cash Allowances
5. Hire Cars

Register your opinion by submitting your vote on our website [www.carbenefitsolutions.co.uk](http://www.carbenefitsolutions.co.uk).

The results of this poll will feature in the next edition of CBS Perspective. Remember, your opinion counts!

## Results from previous CBS Perspective's topical question

In the last edition of CBS Perspective, the poll question asked fleet and benefit professionals, "From a Health and Safety perspective, what is most concern to you?"

The two items that concerned you the most were "high business mileage" and "ensuring cars are properly maintained".

Ensuring that cars are properly maintained should not be an issue under company car or structured ECO arrangements as this should be actively managed by fleet managers, be they internal or external. Provided the proper controls are in place, it is the employee who is responsible in instances of non conformance with stated policies.

Expecting drivers to travel high business mileage is an issue regardless of how the car being used for company business is financed. Company policy should ensure that employees take adequate breaks when travelling on long business journeys and set a maximum number of miles or number of hours that can be driven in one day. According to the transport police, the main reason for motorway accidents is drivers falling asleep at the wheel. Companies should also ensure that what they are asking of employees is reasonable when taking policies such as those mentioned above into account.

Drivers not having undergone appropriate driver training was the next most popular

response. Evidence shows that driver training can significantly reduce the number of insurance claims. The inclusion of driver training as part of an overall Health and Safety policy is, for many, representative of how seriously a company took this issue.

Employees selecting high risk cars did not appear to concern respondents. This may be due to existing policies that prevent employees selecting unsuitable high risk cars. However, this may be more of a concern for employees taking a cash alternative without the necessary policy restrictions and controls in place.

Similarly, employees taking cash and buying used vehicles also did not appear to cause concern. This could be due to a perception that if an employee takes a cash alternative, then all the risk passes to the employee. Whilst the direct economic risks pass to the employee, compliance with Health and Safety standards remain with the employer where the employee is using their own car for company business.

In summary, under company car and structured ECO arrangements, risks such as vehicle suitability, ensuring proper maintenance and appropriate insurance cover, should not be the issue. However, risks associated around driver mileage, hours and routes and ensuring the driver has relevant experience are of concern and need to be addressed.

Where employees take a gross cash alternative, these risks normally increase due to control issues. ■■■

## Hidden costs of Gross Cash

Recent research conducted by CBS has highlighted a number of worrying trends currently being experienced by employers who have effectively 'bought out' car benefit with gross cash and allowed employees to fend for themselves regarding vehicle provision.

Irrespective of the frustrations registered by many employers in terms of their ability to influence the type of vehicle selected by employees (both in terms of suitability for purpose and preferred corporate image considerations), more than 50% of the respondents polled reported an increase in cost associated with this benefit methodology when compared with legacy company car arrangements.

Firstly, evidence suggests that on average gross cash allowances are over-generous by about 10%. Secondly, in the majority of instances, employers reported an increase in alternative transport costs such as train and air travel despite the fact the nature of the employee's role and corresponding itineraries had not materially changed. Many of the organisations effected were of the opinion that a change in driver

behaviour due to the perception of their vehicle arrangements no longer being 'company provided' was largely responsible.

Policies on business mileage reimbursement rates were also the subject of retrospective scrutiny with those employers choosing to reimburse business travel for employees choosing gross cash at the Inland Revenue Approved Mileage Allowance Rates (AMAP) without any form of restriction, seeing material increases in costs. For many, the generosity of this policy served to incentivise drivers to potentially cover more business miles than absolutely necessary in an attempt to fund aspirational vehicles.

By far the most serious concern to result from the research was companies questioning how to manage their corporate responsibilities around employees operating private cars for business purposes. Prevailing health and safety legislation extends to private cars being used for business travel and therefore any risk management policies need to ensure vehicle roadworthiness and that appropriate insurance cover is in place. ■■■

reconciliations of business mileage compared with the cash value of employee allowances on your ECO scheme.

This was a feature of several schemes that were implemented prior to 2002 before the rules around AMAP changed. Strictly speaking, since April of that year, the payment of free-of-tax amounts under the AMAP facility has to be made in the earnings period to which it relates. In the case of salaried employees, this would normally necessitate a monthly exercise of comparing business mileage declarations with allowances payable.

Ultimately, it is your local tax inspector with whom your original tax clearance was sought who will decide on the appropriate treatment going forward. However, even in the case where a tax year-end PAYE Settlement Arrangement (PSA) is withdrawn, structures can be introduced that achieve the same economic result without the need to conduct monthly reconciliations.

Isn't the application of large manufacturer discounts in the sale of vehicles to eligible employees under an ECO arrangement a taxable Benefit-in-Kind?

This will ultimately depend on the employee's ability to actually realise a profit from the arrangements under the 'moneys worth' interpretation of taxable benefits.

Depending on the quantum of discount applied, to realise a profit the employee

## Health and Safety... Cont.

To assist companies in meeting their obligations, the Health and Safety Executive (HSE), in conjunction with the Department of Transport, issued 'Driving at Work - managing work related road safety' guidelines in September 2003. This allows the HSE to take a stronger line with companies not adhering to the regulations and these guidelines will be supported by new legislation.

The Health and Safety at Work (Offences) Bill, currently before Parliament, increases the punishments for offences committed under the Health and Safety at Work Act 1974. As the enforcing authorities increase their activity this is likely to result in directors and responsible officers facing fines of up to £20,000 and possible imprisonment.

The Road Safety Bill will have additional impact on companies as key employees find themselves potentially banned from driving due to increases in penalty points for using mobile phones whilst driving and speeding offences. Responsible driving behaviour must become part of the company culture to prevent avoidable business disruptions.

However, not all is doom and gloom. Significant advantages can be gained from implementing best practice. Clear policies will help reinforce the business culture that you wish to present to prospects, customers and suppliers. Improved processes and controls should allow you to manage and operate your fleet more efficiently and effectively. Education of your employees, including driver training are likely to result in significant savings due to lower insurance costs and indirect business disruption costs. It is estimated that the actual cost to a business of a vehicle accident is on average ten times the direct damage repair costs. ■■■

must firstly extinguish his or her financial obligations under their loan agreements with the funding provider and then sell the vehicle for a greater amount than the relevant settlement balances.

As the larger discounts only normally apply to volume manufacturers vehicles, the ability to profit is normally not an issue as the depreciation of the vehicle outstrips the written down capital balance in the employees loan.

However, there could be an exception if an employee was to instigate a termination request very early in their loan agreement. Albeit unlikely, due consideration must be given to this circumstance in the Inland Revenue tax clearance process. ■■■



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

This issues questions include;

Our current ECO scheme features an annual PAYE reconciliation at the end of each tax year that compares the amount of allowances paid to employees with the value of their actual business miles under Approved Mileage Allowance Payments (AMAP) but I have heard that this practice is no longer permissible. Please could you elaborate?

The arrangements you refer to are effectively a dispensation granted by the Inland Revenue as an administrative convenience to avoid monthly

The basis for private fuel tax has been frozen at £14,400 for 2005-06 but this is still subject to the increase in the tax rate to be applied to it which is based on company car tax rates. The result is a further increase in tax on private fuel requiring most employees to have to drive substantial private mileage to make the benefit worthwhile.

Other announcements relating to vehicle tax include the freezing of Vehicle Excise Duty for the lowest four bands and an increase by £5 for the highest two bands. Additionally, Fuel Duty is to be increased by the rate of inflation although this is to be deferred until September 2005.

The Budget did not provide many surprises however it did reinforce the Treasury's view that the taxation of cars forms an integral part of the Government's climate change strategy. As such, it is probable that all aspects of car tax are likely to be aligned with CO<sub>2</sub> emissions with consultations currently in progress for CO<sub>2</sub> emission linked VAT on private fuel benefit and capital allowances.

#### EU 6th Directive ruling impact on business fuel costs

Following the Advocate General's opinion on 10 March 2005, and as reported in

Perspective Issue No.6, the European Court of Justice ruled that the UK had failed to meet its obligations under the EC treaty in relation to the 6th Directive. The case looked at how companies claim VAT on business fuel costs specifically where employees pay for the fuel in the first instance and then claim a business mileage fuel reimbursement from their employer.

UK companies have been using this method of business fuel reimbursement with full consent of UK Customs & Excise following the VAT (Input Tax) (Person Supplied) Order 1991. However, under the 6th Directive, which sets out a common and uniform basis of assessment for VAT across the EU, a taxable person may only reclaim VAT on a transaction to which they are a party.

The consequence of this ruling is that if employers continue the current practice of reimbursing employees for fuel, then they will not be able to claim input VAT. This potential additional cost can be avoided by changing the method of fuel reimbursement by using fuel cards or other company charge cards. In most cases, this will necessitate a change in processes and controls but this is likely to be worth it as the potential cost to UK business of not making any changes is estimated at £1.2bn. ■■■

## FREE CBS ECO Insight Workshop

- The definitive guide to ECO's

CBS are hosting a series of workshops across the UK for fleet and HR executives who wish to enhance their understanding on the key issues and benefits of delivering efficient Employee Car Ownership (ECO) schemes.

The workshops have been designed to offer an insight at the benefits of implementing an ECO and will feature a number of Case Studies. The session will allow for discussion and interaction between all delegates and several experienced CBS personnel.

The workshops are FREE and are scheduled to take place at a number of locations, including:

- Manchester - 16 May
- London - 17 May
- Birmingham - 19 May

If you are interested and would like to attend please contact our Communications Department on 0161 447 8998, alternatively email [ssopala@carbenefitsolutions.co.uk](mailto:ssopala@carbenefitsolutions.co.uk) to book your place. ■■■

## Product Forum - Initial Financial Assessment

This free of charge service is designed to quantify the existing operating cost incurred by an employer relating to their 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 are 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, contact the CBS consultancy team on 0870 751 9872 for further information. ■■■

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informed...?

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## Next Edition

The next edition of the CBS Perspective will be available in July 2005.

If you would like to submit a question or discussion topic 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 to receive the next CBS Perspective via email please contact [ssopala@carbenefitsolutions.co.uk](mailto:ssopala@carbenefitsolutions.co.uk).