

# Press Release



## Employee Car Ownership (ECO) Explained

Most employers' car policies feature a cash alternative option for those employees who would prefer to make their own arrangements in relation to vehicle provision in the workplace. Historically, uptake levels have been relatively disappointing due to a combination of factors. Typically these gravitate towards the removal of a 'risk and hassle free' user experience and a fundamental concern that the buying power of the cash alternative (after income tax and National Insurance deductions) is insufficient to deliver a position of financial parity to the driver.

Employee Car Ownership (ECO) schemes are designed with reference to a simple principle - through the passage of title (legal ownership) in the vehicle to the employee, the previous company car tax liability that was payable to the Inland Revenue can be redirected to reduce the employers costs. In addition, Class 1A National Insurance contributions no longer apply and employers can subsequently access the Inland Revenues Approved Mileage Allowance Payments (AMAP) for the purpose of reimbursing employees for business mileage in a private car on a 'free of tax' basis.

It is feasible to lever incremental cost reduction under these arrangements through the use of an Inland Revenue approved Interest Free Loan facility of up to £5,000 for use as a refundable deposit, the objective of which is to minimise the cost of providing typical vehicles to participating employees. The provision cost can be further reduced by the controlled application of corporate discounts without any BIK exposure.

Generally speaking, these types of company car substitution schemes fall into two distinct types, the main differentiator being the ongoing role of the employer as sponsor to the scheme or not, depending on their stated preference.

Where the decision to migrate from company cars is singularly motivated from a financial perspective, the likelihood is that an 'arms length' arrangement will prevail between drivers and a third party provider of vehicles and associated services. This discharge of responsibility from employer to employee can be a particularly unsettling prospect for many drivers who can find themselves exposed to risks that were previously firmly established in the domain of their employer. Under this arrangement, the participating employee is subsequently left to fend for themselves in relation to the procurement and associated operating expense of their chosen vehicle.

A further potential concern for drivers centres on the quantum of cash available, how this is calculated and, probably most importantly, what it will buy compared with their current situation. Almost by necessity this calculation will be bespoke to the individual as the expected mileage over a given term will be a key factor in predicting the associated ongoing cost. Differential treatment of similarly entitled employees needs careful navigation to minimise turbulence from a Human Resource perspective!

t 0 8 7 0 7 5 1 9 8 7 2

f 0 8 7 0 7 5 1 9 8 7 3

E u r o p a H o u s e  
B a r c r o f t S t r e e t  
B u r y  
G r e a t e r M a n c h e s t e r  
B L 9 5 B T

# Press Release

In my experience, such arrangements can be a contentious and unwelcome change in the employee arena with a high potential for dissatisfaction. The long term viability of these unsophisticated arrangements has encountered an additional concern of late with the recent introduction of corporate manslaughter legislation that could potentially hold the corporate accountable for the employee's negligence. The prospect of unlimited liabilities for the company resulting from something like inadequate motor insurance cover being in place with employees operating private vehicles on company business is a scenario synonymous with the automotive equivalent of Pandora's Box.

Sponsorship of structured ECO schemes by the employer is, for many, a more favourable route to the attainment of a combination of key financial and human resource objectives. It is worthy of note that this particular genre of car scheme has gained a reputation in recent years for their ability to reduce employers cost without the necessity to erode the employees benefit entitlement, either financially or operationally.

Since the introduction of such schemes in the early 1990's, initial scepticism regarding their long term viability has largely dissipated, with many former critics having been converted to vocal promoters in the interim! Interest levels continue to generate considerable workloads for reputable providers, many of whom have enjoyed considerable business growth as a consequence of their ability to position a compelling business case in support of the proposed change.

As with all things that appear 'too good to be true', it would be irresponsible to herald such arrangements as a panacea. The tendency of some providers to overstate the savings potential has disappointed many pioneering adopters and the absolute necessity to ensure the technical robustness of the proposition and the associated processes and procedures should be on the critical path of any organisation when examining a potential suppliers offering. Failure to do so can deliver a very different result to that which was intended.

In next months edition we will examine where savings come from, the key sensitivities and how best to anticipate the financial impact of any change.

t 0 8 7 0 7 5 1 9 8 7 2

f 0 8 7 0 7 5 1 9 8 7 3

E u r o p a   H o u s e  
B a r c r o f t   S t r e e t  
B u r y  
G r e a t e r   M a n c h e s t e r  
B L 9   5 B T