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9 June 2004

The Rise of Alternative Company Car Arrangements

Taxation may have helped fleet sizes to fall, but the number of cars being transacted through leasing and car ownership is rising, says **Peter White**

If you read nothing else, read this ... • Personal contract purchase plans and employee car ownership (Eco) schemes have been increasing over the past few years. • Employers must be mindful of authorised mileage allowance payments, because they may encourage drivers to clock up higher mileages. • The Revenue is starting to focus on Eco schemes, which may lead to a re-emphasis by firms on safety and flexibility and less on tax.

The threat of hefty tax hikes for company car drivers has subsided and the hysterical moves to cash have slowed down. But, this hasn't meant the market for personal contract purchase (PCP) plans and structured employee car ownership (Eco) schemes has shrunk. In fact, *Employee Benefits Fleet Research 2004* shows the opposite; employee car ownership schemes have increased from 2% to 8% and PCPs from 6% to 9%.

This is not to say PCPs and Eco schemes are the same thing; Eco schemes are a halfway house between company car and cash alternative, while a PCP is an unsupported agreement between an employee and a dealer. PCPs are increasing in some industries more than others. Alan McCleave, business direct manager at ING Car Lease UK, says: "The IT industry has a very high proportion of cash takers and these people are empowered with a lot of money in their pockets to go and spend it. You will find the majority will opt for a personal lease scheme of some description."

Gerry O'Neill, commercial director at Car Benefits Solutions, points out too that in the public sector and in the construction industry most organisations opt for PCP over Ecos because of the culture in those sectors. Both PCPs and Eco schemes can be structured around Inland Revenue rules to take advantage of authorised mileage allowance payments (Amaps) of 40p per mile tax free. Amaps, formerly known as the fixed profit car scheme, were introduced in 2002. According to O'Neill the use of Amaps is particularly popular in PCPs, and he warns employers with one of these schemes to keep an eye on the Revenue in case of changes. Ing's McCleave says: "The Amaps are a bit strange. The government said they brought in CO_2-based taxation to stop the old incentive of driving as many business miles as possible to pay lower

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tax. But then you introduce Amaps and you basically fly in the face of that. If there were too many Eco schemes utilising them then the Inland Revenue would have to have a serious rethink." But O'Neill disagrees that Amaps encourage employees to do as many business miles as possible. "This issue is not attributable to Amaps *per se* but instead to the employer's policy on business mileage reimbursement. As such the relevant employer will need to be mindful of corporate responsibilities around duty of care and key health and safety considerations when deciding on this policy treatment."

The Inland Revenue is currently looking at the interaction of company car tax with Amaps to see how this impacts on drivers' decisions. It's also possible that Gordon Brown's recent Budget assault on tax avoidance schemes, could be extended to include company car matters, as he protects exchequer coffers potentially at risk from carefully worded car schemes. The Inland Revenue's 2004 *Report on the Evaluation of the Company Car Tax Reform* shows that CO_2 taxation is estimated to have cost the government around £140m in 2004/05 owing to a 250,000 decline in company cars. As Andrew Cope, managing director at Zenith Vehicle Contracts, says, the Revenue is starting to exercise greater control over tax efficient Eco schemes, which should lead to plans which focus less on saving tax, that offer more flexibility and pay more attention to health and safety concerns.

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