

Press Release

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Company Car v ECO

It is widely expressed that after salary, car benefit is the most important form of remuneration, but while many employees consider a company sponsored car to be such an important benefit, how many of them fully understand the implications to them of the method by which the benefit is delivered?

Employee Car Ownership schemes (“ECOs”) are becoming ever more popular with employers as they often provide the ability to deliver a car benefit in a more cost efficient manner. However, while there are obviously benefits to the employer, it should not be forgotten that there are also significant advantages to the employee.

The primary benefit of an ECO to the employee is that they no longer pay company car tax. Although it is usual for the employee to pay a contribution towards the running costs of the vehicle, ECOs can be structured so that this contribution is far less than the tax they previously paid.

Critically, the employee can be protected against future increases in company car tax. Even under the new CO₂ emission based tax rules, company car tax has increased by £25 per month over the last two years on a typical vehicle.

This ability to switch from an Inland Revenue determined company car tax to an employer set contribution is particularly attractive to employees traveling high business mileage. Drivers who have historically traveled over 18,000 business miles a year have, in many cases, seen their company car tax double since the introduction of the CO₂ emission based tax rules.

With title to the vehicle resting solely with the employee under an ECO arrangement, employees may, in addition to being free of company car tax, also enjoy cash back from the Inland Revenue. This money is received by way of tax relief based on the number of business miles an employee has traveled after considering the value of the car benefit provided to them. These calculations can all be managed by the ECO provider.

The contribution an employee pays towards the running costs of their vehicle under an ECO can also be set on what is seen to be a fairer method than that of company car tax. If we consider an employer’s costs in a company car scenario, two cars with significantly different list prices may have the same monthly repayment due to different rates of depreciation and maintenance expense over the contract term. However, although the cost to the employer would be the same for the two cars, the employees’ company car tax liabilities would be based on the different list prices and would therefore be dissimilar if the CO₂ emissions were the same.

Company car tax does not take into account the true whole life costs of running a motor vehicle (i.e. depreciation, maintenance etc...) which is the real level of benefit enjoyed by the employee. Conversely, ECOs allow employees to purchase cars based upon their true cost of

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ownership and not only their list price which, after taking account of employer negotiated support terms, are largely irrelevant anyway.

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ECOs also potentially provide more efficient trading up from benchmark vehicles for employees. Under ECO, the employee simply pays the additional cost of the vehicle. However, in a company car environment the employee would normally be expected to pay a “trade up” contribution to their employer and would then be taxed on a higher vehicle list price, thus potentially being charged twice. It is important to stress that while ECOs may provide a less costly route to “trading up” for the employee, this does not mean increased costs for the employer whose costs are fixed with reference to employee allowances.

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In addition to the financial benefits explained above, ECOs can be designed to offer greater flexibility to employees in terms of how they utilise their benefit. In essence, an ECO is a ‘cash for car’ scheme but with the added advantage of retaining employer sponsorship of the vehicle and the employee having the choice of how much risk they wish to bear.

As well as the greater flexibility which allows employees to choose the car that they desire, subject to employer’s restrictions, ECOs allow employees to retain their vehicle at the end of the agreement term unlike traditional company car arrangements. This again provides for greater flexibility as the car may be retained as an employee’s primary vehicle or as a second family car.

With employees being afforded the opportunity of retaining their vehicle there is evidence to support the claim that employees who participate in ECOs take better care of their cars ultimately leading to a reduction in insurance costs borne by their employer.

In conclusion, as employers strive to recruit and retain quality staff, ECOs provide them with the perfect opportunity to provide a highly attractive and flexible car benefit without the need to increase their own cost base or even potentially reduce costs. It is important is to understand that an ECO is not a generic product and it can be tailored to fit the needs of both the employer and employee.



About CBS

Car Benefit Solutions Ltd (CBS) is an organisation based in the North West, devoted to the development of cost effective strategies to maximise the perceived value of car benefit for employees whilst minimising the provision cost to the employer. Since their inauguration in July of 2002, CBS have established themselves as a leading authority on structured workplace car schemes and the supplier of choice to several major UK corporates. Their business is dedicated to the design, development, implementation and ongoing management of tax efficient alternatives to the traditional company car.

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