# *P*ress *R*elease

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## *Company Car Tax - Who really pays?*

With the migration to diesel vehicles in the wake of the introduction of emission-based tax assessment reaching almost epidemic proportions, it is becoming increasingly the case that employers are effectively suffering creeping vehicle related overheads as a result of company car drivers looking to minimise their individual liabilities.

This phenomenon stems from a fundamental premise. Despite the fact that diesel cars cost more to buy than their petrol equivalents, historically their whole life costs were comparable due to the combination of lower servicing costs and higher residual values. As a consequence of the more frugal diesel fuel consumption, employer were realised from the sub-population of those essential user drivers who cover high levels of business mileage.

Demographic research has highlighted that some 40% more company car drivers are currently selecting diesel vehicles due to their low carbon dioxide emissions than was the case prior to 2002. This makes sound economic sense for the drivers in question but what about their employers? Such a dramatic supply shift is not lost on those who take risk against predicted future values of vehicles to the extent that the previously mentioned residual value premium compared with petrol cars has all but disappeared with the result that monthly lease costs are on the increase. This coupled with the fact that the typical business mileage for a diesel driver is now substantially lower means that the marginal economies previously attributable to high business mileage are also under challenge.

One potential upside to the employer in the current climate could be attributable to the ongoing provision of fully expensed cars, i.e. those that feature private fuel benefit (the popular terminology 'free fuel' is both misleading and factually incorrect). All other things remaining equal, the more drivers who select diesel cars as their choice of company vehicle, the less private fuel is likely to prove attractive as a benefit due to the increased threshold of private mileage required to effectively 'break-even' when compared with the considerable tax liability associated with this increasingly unfashionable benefit. Where this is the case, drivers are better off surrendering their entitlement and will effectively save money by paying for their own fuel for private use. As such, employer costs are reduced to zero but not without a little education in the discipline of financial gymnastics with the drivers first!

CBS recently designed and implemented a structured ECO scheme that delivered a 'win-win' to employer and employees alike. In recognition that some petrol vehicles had lower whole life costs than their diesel counterparts (excluding fuel), employees where given access to a choice of either but had their contribution based on the diesel tax liability. Irrespective of their choice of vehicle, employees were reimbursed for business fuel at the diesel rate, thereby managing the businesses fuel cost without compromising employee choice and importantly creating an environmentally sensitive policy that suppressed the potential for unnecessary trips where employees perceive the fuel reimbursement policy to be generous. The result? The best of both worlds for the economic family.



**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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