

Company Car vs Cash Allowance?

Over the last ten years the range of benefits offered to employees has grown. Nonetheless a “company car” in some form remains a popular business benefit and is central to many overall packages.

“Increasing driver flexibility” is often quoted as a reason for companies looking at alternatives to the provision of a company car, with cash allowances perceived as giving the employee the ultimate freedom.

The table that follows outlines the key considerations for both the fleet and driver when comparing company car and cash allowances.



Fleet managers should clearly define their objectives before determining that offering a cash allowance is the best option. Traditional company car schemes have a great deal of scope for

flexibility, but companies may also wish to consider providing an ECOS solution in order to retain some control over the fleet and provide the benefit of vehicle discounts whilst transferring ownership to employees.



Similarly, the attractiveness of a cash allowance scheme to drivers will depend on their individual circumstances. Whilst the financial benefit is key, research shows that many drivers place a greater value on a company car than its cash equivalent, largely because they don't want the administration, hassle and risk of ownership.

If you need any further advice please e-mail us on telebusinessstrategyteam@arval.co.uk and we will be happy to help.

Consideration	Fleet		Driver	
	Company Car	Cash	Company Car	Cash
<i>Financial</i>	<ul style="list-style-type: none"> • Traditional company car schemes are relatively simple to run • Many funding methods allow costs to be fixed over a certain term • Offering the same level of benefit to groups of drivers based on job role is straightforward • Company pays for all vehicle running costs, taxes, insurance and National Insurance contributions on Benefit In Kind (BIK) values • The company pays for an early termination if a driver leaves or the vehicle is declared an insurance write off 	<ul style="list-style-type: none"> • Due to tax reasons companies can use AMAP'S (Approved Mileage allowance Payments) to fund a proportion of the cash allowance to the driver. The lower the pence per business mile given (which is not taxed if under 40p) the more money the driver receives tax free, this can be offset against the monthly cash payment the driver receives which is taxable both for the driver and company • Calculating and administering cash allowances can be complex – it is extremely difficult to calculate allowances that compensate drivers equally by grade due to mileage and insurance differences • Allowances need to be benchmarked in order to maintain competitiveness to attract and retain staff • Administration of "fleet" does not disappear – reimbursement of business mileage needs to be managed along with Duty of Care obligations • If you have a mix of company and opted out vehicles then your buying power for maintenance etc on company vehicles may be reduced 	<ul style="list-style-type: none"> • Driver pays Benefit In Kind on the company vehicle based on the value of the vehicle, CO₂ emission level and tax rate • Drivers know where they are financially, they know what the monthly costs will be and so can budget accordingly 	<ul style="list-style-type: none"> • Driver free to spend the cash in any way – this may not be on a vehicle • Driver does not pay BIK on the company vehicle, but is taxed on the gross cash allowance • Drivers need to take into consideration their circumstances e.g. cash allowance value, mileage and tax rate, so some drivers "win" and some "lose" • Driver is responsible for their own purchase finance and running costs
<i>Ownership</i>	<ul style="list-style-type: none"> • Company has option to buy or lease vehicles for use by employees • Able to choose most appropriate method based on operating conditions, accounting and tax considerations 	<ul style="list-style-type: none"> • Vehicles no longer appear on balance sheet either as an asset or a liability • Company may consider offering an optional PCP scheme to offer discounted vehicles and finance terms to employees 	<ul style="list-style-type: none"> • Vehicle chosen from list and is not owned by the driver • Acquisition and disposal the responsibility of the company 	<ul style="list-style-type: none"> • The Driver may own the car, or use credit to arrange finance • Driver responsible for buying and selling their own car
<i>Insurance</i>	<ul style="list-style-type: none"> • As company in control – correct cover will be in place • Accidents usually managed by accident management specialist or insurance company 	<ul style="list-style-type: none"> • Potential saving on insurance premiums, however: • Need to stipulate business cover purchased by drivers • Need to have process in place to audit and monitor this on an ongoing basis • To ensure cover, some companies purchase insurance and build this into the cash allowance • If previously had company car, may need to provide driving record data to purchase insurance 	<ul style="list-style-type: none"> • Insurance paid for and dealt with by the company • Accidents and other claims managed by the company, including provision of alternative vehicle 	<ul style="list-style-type: none"> • Insurance cover that includes business travel must be taken • Insurance now becomes a factor in vehicle choice as at driver cost • This will not affect all drivers equally – some will be disadvantaged due to age, driving record and home location • All accidents and claims need to be dealt with by the driver • The driver may incur replacement vehicle costs

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Maintenance	<ul style="list-style-type: none"> Managed maintenance service usually bought from fleet service provider as part of leasing package or stand alone service Assurance of managed network, so service levels agreed and reporting available Managed MOT, servicing, breakdown and recall processes Minimised downtime and controlled provision of replacement vehicle 	<ul style="list-style-type: none"> Need to ensure effective maintenance of private vehicles used for business purposes for Duty of Care obligations Requires process to audit and monitor regular servicing and MOT compliance May experience more disruption from increased downtime / breakdown rate associated with older vehicles, less regularly maintained 	<ul style="list-style-type: none"> Peace of mind – Maintenance, MOT, breakdown, tyre, glass and road taxes paid for and dealt with by the company or its fleet management service provider Service benefits such as online booking, collection and delivery, wash and vacuum, courtesy vehicle provided 	<ul style="list-style-type: none"> Liable for all maintenance costs, and unpredictable costs associated with this. Service levels in garages not monitored Need to arrange for maintenance and MOT work to be carried out Need to purchase breakdown cover May incur replacement vehicle costs and inconvenience
Fuel and Reimbursement Policy	<ul style="list-style-type: none"> Drivers usually pay for fuel and claim reimbursement costs for business mileage based on a fixed rate per mile Alternatively drivers purchase all fuel using a fuel card and are reimbursed for private mileage at actual cost Implementing a fuel policy to reduce unnecessary spend and encourage use of cheaper brands can lead to significant savings 	<ul style="list-style-type: none"> Apart from the vehicle itself the total cash reimbursement needs to also cover, Maintenance, depreciation, insurance and Fuel (when travel is taken). To do this fleets can reimburse in a number of ways: <ol style="list-style-type: none"> Pay in line with AMAP rates Pay below AMAP rates and let the driver claim tax relief on the difference between the rate received and the AMAP rate Pay a set pence per mile rate based on actual costs Reimbursement rates set too high encourage drivers to undertake mileage or add on mileage on expense claims and raise costs If rates are too low, drivers will be reluctant to use their car for business or will lobby for increases Fuel cards can provide a solution for cash drivers but may be resisted by cash takers, especially low business mileage drivers 	<ul style="list-style-type: none"> All costs sit with the company apart from fuel Business mileage needs to be logged and claimed for, receipts need to be kept If using a fuel card Driver needs to keep mileage records in order to split private and business fuel usage The company may pay all fuel consumption including drivers' private mileage 	<ul style="list-style-type: none"> Reimbursement need to cover depreciation, maintenance and insurance costs in addition to fuel Some companies may choose to cover fuel on an actual cost basis via fuel cards Drivers need to ensure reimbursement rates to cover incurred costs – however this is very difficult to assess If companies are paying drivers a higher or lower reimbursement, rate than the AMAP'S rate, drivers may be entitled to tax relief or may incur a tax liability Drivers may have to wait until the end of the tax year to reconcile this tax position
Duty of Care	<ul style="list-style-type: none"> Driver license checking linked to order process and provision of vehicle Good practice includes assessing fleet and driver risk, investigating accidents and ensuring fitness to drive 	<ul style="list-style-type: none"> Driver license checking and other Duty of Care measures remain as valid for cash drivers as company car Company no longer obliged to check additional driver licenses, or cover insurance or accident costs 	<ul style="list-style-type: none"> Fleet department and/or leasing company likely to ensure good risk management practices in place to protect and improve driving 	<ul style="list-style-type: none"> Less focus on maintenance and road worthiness of vehicle less focus on risk management and ensuring safer driving practices May be asked to use company vehicle when travelling on business

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Environment	<ul style="list-style-type: none"> • Able to restrict vehicle choice by CO₂ emissions levels and/or mpg performance • Can encourage cleaner vehicle selection by linking these factors to trade down allowances 	<ul style="list-style-type: none"> • Average CO₂ emissions are 20g/km higher in cash allowance vehicles than company cars • More drivers choose petrol models as no tax disincentive applies, increasing fuel consumption • Some companies impose standards on private vehicles used for business but this can be difficult to police and may lead to push back from employees • Cleaner vehicle selection could also be encouraged by linking cash allowance levels to CO₂ 	<ul style="list-style-type: none"> • Some companies may offer incentives for cleaner vehicle choice • Access to alternative fuel vehicles such as hybrid or biofuel models may be easier and carries no residual value risk to the driver 	<ul style="list-style-type: none"> • May choose not to take a vehicle and use the cash to fund other travel method e.g. season tickets for public transport • Free to choose any vehicle and so may not consider environmental performance a key criteria. May find environmental performance is compromised due to cost and other practical considerations
Vehicle Choice	<ul style="list-style-type: none"> • Company able to use selection list to ensure objectives are met regarding: <ul style="list-style-type: none"> - Fitness for purpose - Safety - Environmental standards - Company image • Company car schemes can provide a visibly equitable way of remunerating and incentivising employees, although this can also have negative consequences 	<ul style="list-style-type: none"> • Some companies impose standards on private vehicles used for business but this can be difficult to police and may lead to push back from employees • Employees taking cash often select older, sportier vehicles that may not reflect an appropriate company image to customers or suppliers 	<ul style="list-style-type: none"> • Guarantees a brand new vehicle in line with replacement policy e.g. every 3 years • Choice restricted to vehicles on the company car list – this may be open, but more likely to be restricted to maximise vehicle buying discounts • Discounts also represent a positive – they enable a better vehicle and/or spec to be selected • Trade up/ down enables further flexibility if offered • Extras policy may limit the options that can be selected 	<ul style="list-style-type: none"> • Theoretically free choice of any vehicle, any optional extras • Flexibility to change vehicle at any time (although this will have cost implications)