



Company car or car allowance?

As an EMPLOYER, what do I need to consider?

Company car

Company cars offer a great many perks for staff, but also come with their fair share of downsides. Not least is the task presented for both the employer and employee in making sense of the tax system, but also the costs associated with high purchase prices and maintenance. So much so, that the role of company car fleet manager is growing rapidly among medium and large businesses.

Some of the benefits and issues you need to consider are:

Flexibility and mobility

One of the most attractive reasons for providing company cars is the mobility and flexibility it offers employees, especially those with families. Having access to a second car can give employees more freedom and control over their day-to-day schedule.

And for staff who rely on public transport to get to work, a company car can be a much more productive option.

Ease office location issues

If your offices aren't served by public transport, or are out of the way, or maybe your staff work unsocial hours - providing company cars can be a good solution and give you great bargaining power when taking on new staff too.

Other benefits

Cars can be used as an additional marketing tool, should you wish to brand them. And they can also be a great way of attracting and retaining the best staff.

Extra tax implications

In recent years, governments have increased taxes to encourage the use of more efficient vehicles. The amount of tax you and your employees will pay is generally determined by a vehicle's CO2 emission levels and list price.

Both businesses and employees need to consider tax implications thoroughly before making a decision on a vehicle.

The costs involved in providing a fleet of company cars

Company cars don't have to be pricey, but the cost of running a whole fleet can soon add up. Purchasing several company cars can be a huge investment. For this, and many other reasons, leasing is becoming an increasingly popular option for running a large fleet.

Depending on your company's circumstances, company cars can be either highly valuable or an unnecessary extra cost and burden. If they are something your business and employees will benefit from, then they can be not only a great way of getting your employees from A to B on time and in style, but a great symbol of quality and care for your public image.

Other financial implications to be considered:

Cars can't be immediately offset as a capital allowance.

VAT can sometimes be reclaimed — 50% on cars leased for employees, 100% on pool cars (as long as you can prove there will be no personal use) but nothing can be reclaimed on cars bought for individual use.

You will need to pay Class 1A National Insurance contributions on the taxable value of the car and on personal usage on fuel.

Tax due on cars and fuel must be collected through PAYE and a P46 (Car) also must be completed for the HMRC every quarter.

Car allowance

It is more tax efficient to offer an annual car allowance (that is, effectively, a pay increase in lieu of a company car). You avoid the taxation and administration burden, while your employees avoid Benefit in Kind taxation.

You may also find it more efficient in not having to worry about maintaining and running a fleet of cars, but still benefit from giving your employees improved mobility and flexibility as well as a great incentive to stay with your business.

As an EMPLOYEE, which option makes more sense for me?

Company car

The main benefits of having a company car are that you won't need to worry about maintenance, servicing or selling the car at the end of the lease, and you're not personally tied into a financial contract.

Insurance is also covered along with breakdown recovery and, often, costs associated with accidental damage. But, if you leave your current job, you leave your car too.

You will have to pay tax on it though and, to keep this cost down, picking a car with low CO2 emissions is key. But, having the tax costs of your company car in one monthly payment can help you plan your finances, with no unexpected bills to worry about. It is worth noting that this can be a large figure. Try the calculator below*

If fuel is also part of your package then you'll need to pay Car Fuel Benefit as well as your company car tax. But, you could still save money each month if your commute is of a decent length every day.

You will get a brand new car every three or four years, which will obviously be restricted to whatever makes/models your company offers.

Although a company car is seen as a great perk, there are lots of private leasing deals that include servicing, maintenance and even insurance, so it's worth taking a look around at other options to see what works out more financially beneficial to you.

AT A GLANCE — COMPANY CAR

| PROs | CONs |
|--|------------------------|
| No unexpected bills, just a set fee every | Restrictions on choice |
| Maintenance and insurance are covered | You never own the car |
| You will get a new car every three or four | |

Car allowance

Not every company offers a cash alternative and the amounts vary greatly. Some offer as much as £8,000 per year, paid monthly, which will be subject to tax.

If you already have a car or only have a short commute to work, it can be a big cash injection for your household. Some decide to spend the extra allowance on a new car which, depending on the financial agreement you enter into, could be yours to sell at the end of the term.

This option offers you the freedom to choose whichever car you want rather than being restricted to certain car manufacturers, CO2 emissions and fuel type.

Although you'll likely save on car tax and fuel tax, you will need to budget for the usual costs of owning your own car, like insurance, road tax, servicing and maintenance costs and any repair work.

If you use your own car to travel for work, make sure you check your employer's Driving at Work handbook because some companies have an age limit, CO2 emission cap or even restrictions on the number of seats or doors your car must have if you wish to use your own vehicle for business. If you do, you can charge your employer a mileage fee to cover both fuel and the cost of maintenance. The maximum rate set by the government (before you have to start paying tax on it) is 45p per mile up to 10,000 miles a year.

One thing to bear in mind is that if you take out a financial agreement for a new car, regardless of any change to circumstances, you are obligated to pay until the end of the term. Company car drivers can just walk away if they leave the business.

| AT A GLANCE — CAR ALLOWANCE | |
|--|---|
| PROs | CONs |
| You have the freedom to buy any car you want | You pay tax on the monthly allowance |
| Cash sum may help ease financial burdens | You could be tied in to a financial contract if you decide to use the money for a car |
| You keep the car as an asset | You may have to budget for servicing and maintenance costs |

* Here is a handy Company Car and Fuel Benefit Calculator, provided by HMRC
<http://cccfcalsculator.hmrc.gov.uk>

We hope you found this brief guide useful and informative



Call us, tweet us, pop in and see us — or we can come and see you

t (01482) 650399 **m** 07584 161563 **e** admin@ahrecruitment.net **w** ahrecruitment.net

t @AHRrecruitment **f** /AHRrecruitmentLTD/ **in** /company/ah-recruitment-limited/

Ground Floor Suite, McMillan House, 6 Wolfreton Drive, Anlaby, Hull HU10 7BY