business
Services Wales

Guidelines on employee car allowance

1) Personal contract hire/personal contract purchase.
2) Reasons why a company should offer the option to provide a car allowance as an alternative to a company vehicle.
3) Practical Guidelines.
4) Employer Duty of care.
5) Why should the employee wish to opt out of the safety of a company vehicle?
6) The practical process for an employee to obtain his vehicle.

1) Personal contract hire/personal contract purchase.

The employee when opting out of the company car scheme can choose between two forms of funding:

- Personal Contract Hire
- Personal contract Purchase.
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The primary choice for the employee is whether he wishes to participate in the ownership of the vehicle, if so he chooses the latter.

2) Reasons why a company should offer the option to provide a car allowance as an alternative to a company vehicle.

The aim of the employer is to give the employee a choice to have a company vehicle fully serviced changed at regular intervals or alternatively take a car allowance & provide his own.

If the car allowance route is taken the company can derive specific benefits from moving the responsibility for the vehicle from the company to the employee:-

- Reduced negotiation on specific model car lists.
- Reduced personal issues on type of vehicle avoiding dispute with employees
- No company vehicles to administer saving HR personnel time.
- Maintenance issues dealt with by the funding provider & consequently the company does not get involved in speeding tickets parking tickets, being totally the legal responsibility of the employee.
- Employee receives an immediate increase in his net salary.
- Employee P11d calculations are no longer required.

3) Practical Guidelines.

The company sets a series of graded car allowances based on typically no less than 3 levels of allowance and no greater than five.
The employee is given a broad range of guidelines relating to the company vehicle.

a) The category of car which is allowed, for example diesel or petrol.
b) Minimum 4 door vehicle /estate car.
c) Cubic capacity range e.g. between 1800cc to 2500cc.
d) Vehicle age new vehicles or vehicles up to one year old.
e) Maximum vehicle change cycle or the maximum mileage at which a car must be changed.
f) All cars mandatory service & maintenance agreement & AA recovery.

4) Employer Duty of care.

There is a Duty of Care from the employer to the employee to establish an approved source of funding for the vehicles. An illustration of the employee tax situation must be given to explain the changes in the employee tax liability based upon the average mileage anticipated.

The employer must be seen to exercise a duty of care by providing specialist advice on employee protection in opting out of a company vehicle, two situations are essential. These can only be suggested as a prudent course of action the employer cannot make these mandatory.

A vehicle insurance plan is suggested whereby a written off vehicle is replaced with a new vehicle should the vehicle be written off at any time during the term of funding.

In case the employee is unable to continue working perhaps long term illness, an accident or suffers unemployment an insurance protection is suggested to cover essential payments.

The only mandatory protection being that vehicle must be insured for business use & be fully comprehensively insured.

5)Why should the employee wish to opt out of the safety of a company vehicle?

The aim of the employee is to have all the benefits of a company vehicle and the benefit of not paying company car tax with a more flexible choice in the models they can obtain.

Employee perception that he has now been given a choice to pay company car tax or alternatively pay out of car allowance to obtain the chance to purchase the car & obtain ownership.

The greatest perceived employee benefit is that the employee makes the decision on a vehicle he will now drive (within the company guidelines). The choice of a vehicle is that of the employee and therefore suitable for their lifestyle.

There is more salary in the bank at the month end giving a perceived increase in available income.

The employee is no longer subject to company car tax and therefore free from greater financial penalties with each new budget.

The vehicle is maintained, paid for by car allowance, the fuel/insurance is paid for by mileage allowance.

The Funding source can:

- Obtain greater fleet vehicle discount consequently cheaper vehicles than the individual could purchase & therefore a better vehicle model or more extras.
- Keep the individual driver mobile in the event of accident servicing breakdowns.
- Provide seamless servicing

The employee would rather receive a car allowance & ‘get something out of it’ rather than paying ever increasing chunks of company car tax.

6)The practical process for an employee to obtain his vehicle.

i) The employee contacts ourselves & advises of his grade & allowance available.
ii)We determine which type of agreement they prefer.
iii)We calculate their tax position to illustrate the benefit or otherwise of opting out of the company vehicle.
iv)We offer the agreed company duty of care benefits, vehicle replacement insurance & employee personal insurance.
v) We quote on the type of vehicle required in accordance with the employer guidelines, & within allocated allowance level.
vi) We advise the employer that the quotation has been given.
vi) If the employee wishes to proceed we order the vehicle advise of delivery date, and provide if necessary a replacement vehicle should there be delay in obtaining the vehicle.
viii) We arrange documentation with the employee & arrange delivery to either their home address or their place of employment.
ix) We issue a driver pack with details of how to proceed in the event of servicing, or tyre replacement together with a unique card to cover the costs relating to that specific vehicle.