

Contacts and offices

Aberdeen

Jim Braid (01224) 212222
jbraid@kiaber.hlbkidsons.co.uk

Aylesbury

Delyth Barnett (01296) 432755
dbarnett@kiayle.hlbkidsons.co.uk

Birmingham

Chris Steele (0121) 631 2631
csteele@kidham.hlbkidsons.co.uk

Bristol

Ann Farquhar (0117) 925 2255
afarquha@kibrist.hlbkidsons.co.uk

Chelmsford

Derek Jordan (01245) 269595
djordan@kichel.hlbkidsons.co.uk

Chester

Rob Thompson (01244) 327171
rthompso@kiches.hlbkidsons.co.uk

Coventry

Andy Farren (024) 7625 6333
afarren@kicov.hlbkidsons.co.uk

Derby

Terry Johnston (01332) 360808
tjohnsto@kiderby.hlbkidsons.co.uk

Edinburgh

David Gwilliam (0131) 225 6424
dggwillia@kiedin.hlbkidsons.co.uk

Glasgow

Danny Jones (0141) 307 5000
djones@kiglasg.hlbkidsons.co.uk

Grimsby

Andrew Mould (01472) 351171
amould@kigrim.hlbkidsons.co.uk

Hereford

Mike Horwood (01432) 352222
mhorwood@kihfd.hlbkidsons.co.uk

Horsham

John Dent (01403) 251666
jdent@kihorsh.hlbkidsons.co.uk

Hove

Marco Spano (01273) 720311
mspano@kihove.hlbkidsons.co.uk

Hull

Andrew Mould (01482) 327406
amould@kihull.hlbkidsons.co.uk

Ipswich

Jonathan Penn (01473) 344300
jpenn@kiips.hlbkidsons.co.uk

Kent

Paul Hodge (01892) 511944
phodge@kitun.hlbkidsons.co.uk

Leeds

Kevin O'Connor (0113) 242 2666
koconnor@kileeds.hlbkidsons.co.uk

Lerwick

Bob Steele (01595) 693384
bsteale@kilerw.hlbkidsons.co.uk

Liverpool

Rob Thompson (01244) 327171
rthompso@kiches.hlbkidsons.co.uk

London

Neil Macpherson (020) 7405 2088
nmacpher@kilondon.hlbkidsons.co.uk

Manchester

Andrew Wilson (0161) 236 7733
awilson@kimanch.hlbkidsons.co.uk

Newcastle

Kirsty McKenzie (0191) 232 0713
kmckenzi@kinew.hlbkidsons.co.uk

Solihull

John Cooper (0121) 711 3939
jcooper@kisol.hlbkidsons.co.uk

Spalding

Nicholas Smith (01775) 766205
nsmith@kispal.hlbkidsons.co.uk

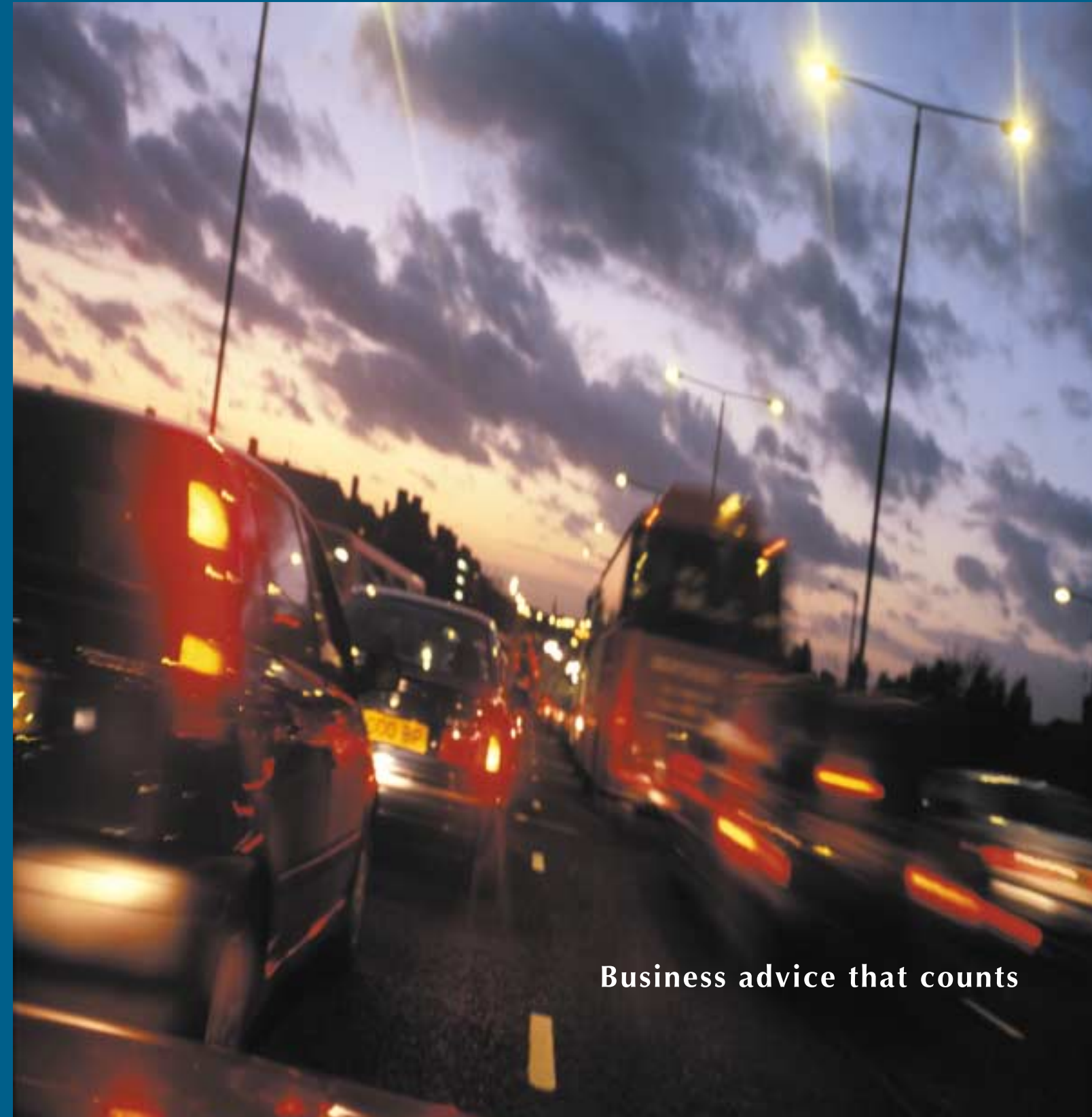
For further information:

e-mail Liliane Brown on:
lbrown@kilondon.hlbkidsons.co.uk
or visit our website at
www.hlbkidsons.co.uk



Tax and the company car

A report produced in association with 



Chartered Accountants

Registered to carry out audit work and authorised to carry on investment business by the Institute of Chartered Accountants in England and Wales

© HLB Kidsons 2001. HLB Kidsons is a member of  International, a world-wide organisation of independent, professional accounting firms and business advisers.

Business advice that counts

Contents

Executive summary	2
Introduction	4
Current car fleet	6
Impact of the changes	9

Foreword

On 6 April 2002, the rules which translate the benefit of having a company car into extra tax and national insurance charges will change dramatically. For the first time, carbon dioxide emissions will come to have a direct effect. The lower the emissions, the less tax and national insurance will be due.

The new rules will apply to cars registered from 1998 onwards, so employees and their employers will feel the impact straightaway. The change will not be phased in as fleets are replaced. However, over the coming years we can expect many employers to phase in new fleets of low-emission cars, which will allow them to reduce the charges.

This report by HLB Kidsons, based on a survey of a wide variety of businesses, shows how some employers have already changed their car policies in anticipation of the new rules. We can expect bigger changes as the rules start to bite. But the Report also makes clear that the majority of company cars are not just perks. They are vital tools of the job.

The IoD is delighted to be associated with this Report. It makes clear the full impact on businesses of the Government's policy.

Richard Baron
Deputy Head of the Policy Unit
Institute of Directors

Technical note: when percentages do not add up to 100 this is due to rounding or to respondents having been given more than one option

Executive summary

In light of the changes to company car taxation from 6 April 2002, Chartered Accountants and business advisers HLB Kidsons and the Institute of Directors have undertaken a joint programme of research to establish how the proposals will affect the decisions companies make regarding the size and content of their car fleets and the benefits they offer their employees. The aim of the survey is to provide an analysis of trends in car fleet management and a basis upon which to lobby Government with the issues facing businesses in the UK.

This report contains a summary of the findings derived from 333 questionnaires completed by senior business decision-makers, principally in small and medium-sized enterprises (SMEs), in May/June 2001.

The likely impact of tax changes

Of the measures introduced with the intention of impacting on the size and cost of operating a company car fleet, changes in car and fuel Benefits in Kind (BIK) are likely to have a greater impact than those in Road Fund Licences (RFL). More than half say that changes in car BIK will have a 'big impact' on the operation of their fleet, and nearly half say this of fuel BIK.

Nearly half of the sample say that the tax changes will lead them to alter the composition and structure of their fleets. In particular, they will change the composition of their fleet, with particular attention to emissions and engine size. Nearly one in five expect to reduce the size of their fleets – often with employees offered a cash alternative and/or asked to provide their own vehicle.

In particular, companies will be forced to review the benefits that they offer to employees. Nearly 40% say that they will offer a cash alternative to cars, and nearly 30% that they will revise the benefits basket offered to employees. Many say that they will change or review their policy on private fuel. 20% say that they plan to remove cars and 15% to remove fuel from their employees' benefits package.

Other implications are that many companies will have to pay out more to compensate high mileage drivers or will require extra funding to maintain their car fleet.

The proposals to tighten up on the CO₂ emissions of company cars are greeted with a mixed response. Around half see them as adding yet further to their administrative burden, and others cite the need for extra funding.

Relatively few see a case for a move to 'environmentally friendly cars', in spite of possible further tax incentives: only 3% have such vehicles at the moment and only 14% say they are considering introducing them to their fleets in the next three years. More particularly, respondents feel that the Government should be doing more to improve the quality and cost of public transport and the transport infrastructure.

The current position

Most of those represented in the survey have car fleets of 20 or fewer vehicles, although one in five have more. In general, fleet cars tend to be replaced every three years, and most in service are under three years old and would fall within the new proposals.

The majority of fleet cars fall into the middle engine capacity (and tax) range – 1,401-2,000cc – but there are many more larger than smaller cars. On average, only 6% of cars are up to 1,400cc, which would attract the Government's lowest charge, compared with 29% over 2,000cc.

The majority of fleet cars are considered important to the companies' business, and levels of business mileage can often be quite high. However, there are some cases where companies may look more critically under the tax changes – on average, 28% are described as 'perk cars' and one in ten are used for fewer than 2,500 business miles in a year.

In order to respond to the tax changes, however, companies may need to review the freedom that they allow employees over the cars they select. At present, more than two-thirds allow their employees to choose any car within a given price range.

Introduction

The changes

From 6 April 2002, the tax charge on company cars will be based on a percentage of the car's list price graduated according to the level of the car's carbon dioxide (CO₂) emissions, building from 15% for cars emitting 165 grams per kilometre (g/km) or less, by 1% steps for each 5g/km over 165 to a maximum of 35% of the list price.

There will be no discount for business mileage, or by reference to the car's age. The emissions level qualifying for the minimum charge will be reduced to 155g/km for 2003/04 and to 145g/km for 2004/05.

The Vehicle Certification Agency currently produces a free indicative guide to emission figures for new cars, and the Society of Motor Manufacturers and Traders (SMMT) will in future provide an emissions enquiry service for cars first registered from January 1998.

For cars first registered from 1 January 1998 which have no approved emissions figures (e.g. because they are non-EC imports), the charge will be a percentage of the list price dependent upon engine size, 15% up to 1,400cc or if electrically propelled, 25% from 1,401cc to 2,000cc, 35% over 2,000cc or for other cars without a cylinder capacity.

Diesel cars will be subject to a supplement of 3% of list price (but with the maximum of 35% still applying), although the supplement will (subject to further consultation) be waived for very low emission diesel cars. Also, following further consultation, discounts may be introduced for other environmentally friendly cars (e.g. those that run on electricity or a combination of petrol or gas and electricity), possibly to below the 15% starting point.

A number of other familiar concepts remain largely unchanged in the new regime. These include the effect of capital contributions, contributions as a consequence of private use and a car being unavailable for part of the year together with the way in which vintage cars are taxed.

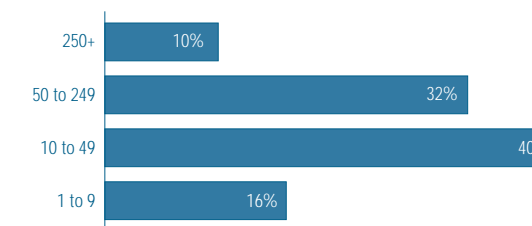
The message being sent out to company car drivers is therefore clear – to consider driving more environmentally friendly vehicles. This message is to be reiterated with the proposed future increases in road fund tax which are likely to be targeted at vehicles with high emissions rates.

Research methodology

Postal questionnaires were sent during May 2001.

In total, 333 questionnaires were returned in time for analysis, representing a range of companies in terms of both industry and size.

Approximate number of employees

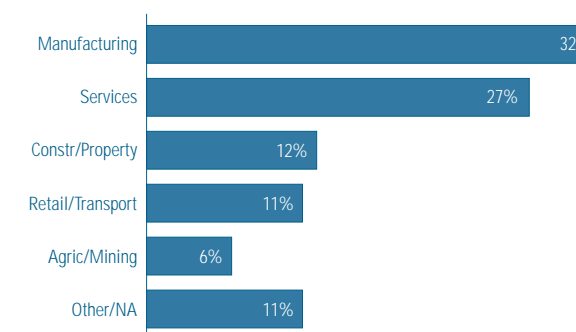


Base: All respondents (333)

The majority (72%) of those responding to the survey are small to medium enterprises with ten to 249 employees, a sector which, according to research undertaken by the Institute of Chartered Accountants and others, has been exposed to an increasing burden of new legislation in recent years.

Those responding represent a wide range of industry sectors.

Industry profile of respondents



Base: All respondents (333)

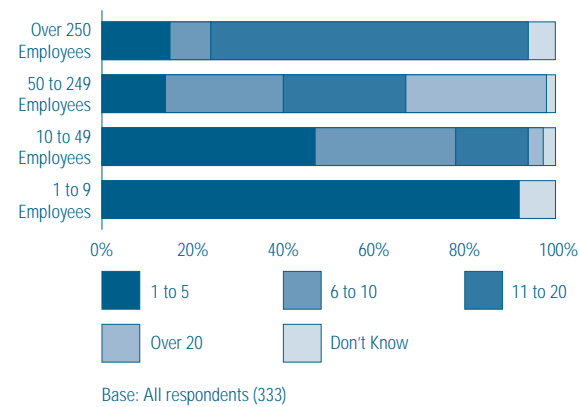
Current car fleets

Whilst company size is an important determinant, the new legislation is targeted specifically at company car fleets, so size of car fleet is a key parameter in understanding the effects of the legislation.

Of the companies responding, three out of five (61%) have fleets consisting of ten or fewer vehicles, whilst just under one in five (19%) have fleets of more than 20 vehicles.

The following chart shows the relationship between employee numbers and fleet size.

Approximate number of cars by size of company



However, apart from fleet size, the proposed changes are also designed to impact on the composition of the fleet in terms of engine size and age of vehicles.

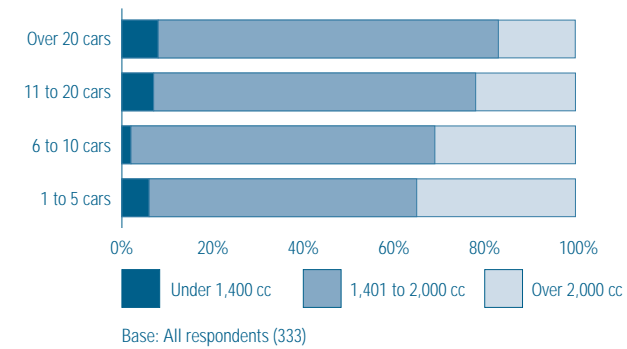
Engine size

On average, two-thirds (66%) of cars in the fleets represented have engine capacities of 1,401cc to 2,000cc and around 29% have engines of over 2,000cc. 70% say that they have no cars with engine capacities of up to 1,400cc, which would attract the Government's lowest tax charge, and, on average, these only account for 6% of cars in these fleets.

Smaller fleets tend to have a higher proportion of cars with larger engine capacities, making them more exposed to the changes. This is likely to reflect the more prestigious cars run by the more senior people in smaller businesses, whilst larger fleets are more likely to allocate cars with a lower engine capacity to less senior staff.

Larger cars also tend to be a little more prevalent in the southern and central parts of the country, with those in Scotland (albeit on a small base) more likely than average to have cars of up to 1,400cc.

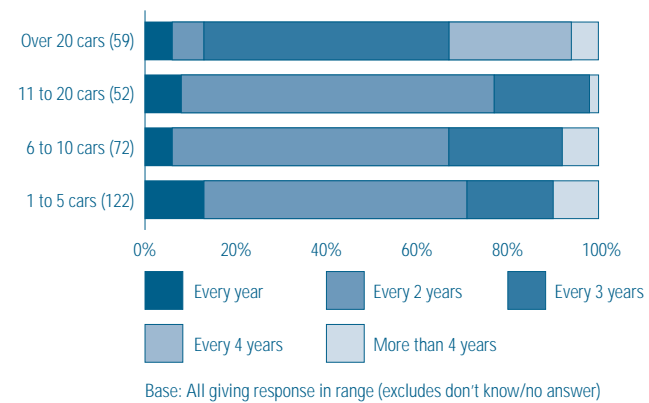
Make up of fleet by engine size



Fleet replacement and age

Currently, the majority of company cars, regardless of fleet size, are replaced every three years, though nearly a third (30%) of all fleets tend to keep their cars for four or more years.

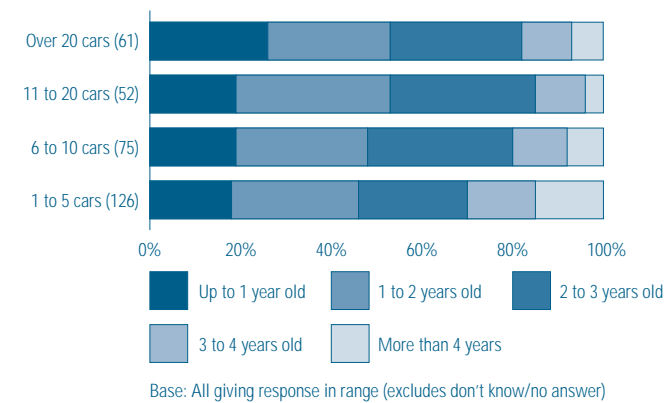
Frequency of car replacement



The actual age of the car fleets shows that, in line with their car replacement policy, the majority of vehicles are under three years old, though very small fleets (i.e. under five vehicles) are more likely to contain older cars.

There are also indications of fewer vehicles having been acquired in the last year, relative to the two previous years – especially amongst the smaller and medium-sized fleets – suggesting that companies may already be responding by reducing the number of new car acquisitions.

Age of fleet

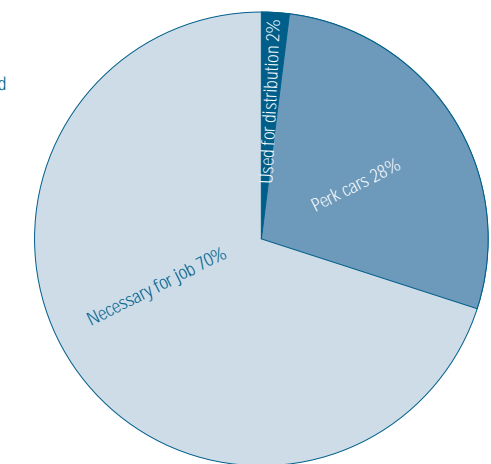


Car usage and mileage

Given the implications of proposed changes, companies will need increasingly to consider whether the vehicles in their fleet are essential to the day-to-day running of the company. Respondents were asked to estimate the proportion of their fleet that is necessary for employees to do their work or for distribution of goods and the proportion that are perks of the job.

On average, nearly three-quarters of cars are considered necessary for business use, leaving just over a quarter considered as 'perk' cars. This suggests that, if pushed, companies might cut their fleet sizes by offering alternative benefits to those currently running perk cars. These are a little more prevalent in the South of the country and amongst larger businesses, but there are few differences by fleet size.

Car usage

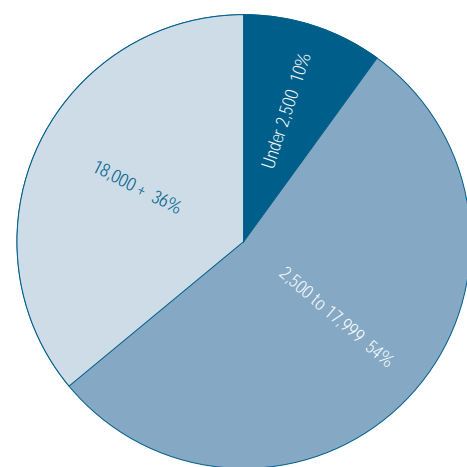


Impact of the changes

Another area for possible fleet rationalisation might be cars that are not used for significant business mileage, but the feedback suggests that very few cars do under 2,500 business miles per annum. Respondents claim that the majority of cars do 2,500 - 17,999 miles on business per annum, and just over a third 18,000 miles or more. Clearly, the abolition of the discount on business mileage could have a significant impact on the tax charge.

There is little variance in claimed business mileage by size of fleet, but some regional differences are suggested: those in Wales/Midlands/Anglia are more likely to claim high business mileages, those in Scotland low mileages.

Mean annual business mileage



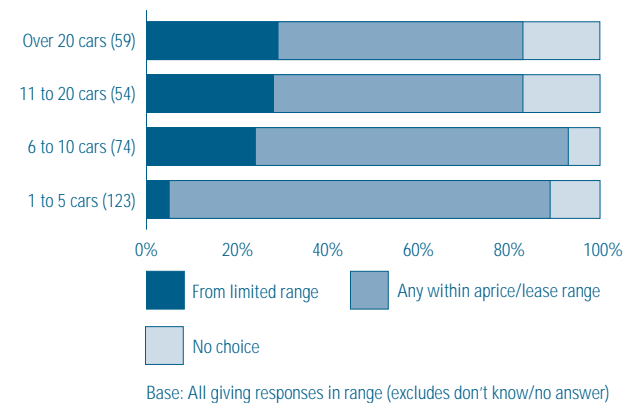
Base: All giving response in range (excludes don't know/no answer)

Car choice

At present most (69%) businesses allow their employees to choose any car within a given price range. Larger fleets tend to offer more limited choice, probably because they need to be managed more tightly and may have manufacturer and distributor deals.

However, the changes to company car taxation may encourage more companies to impose limitations, by price, engine capacity or emissions band, in order to control tax liability.

Choice of car



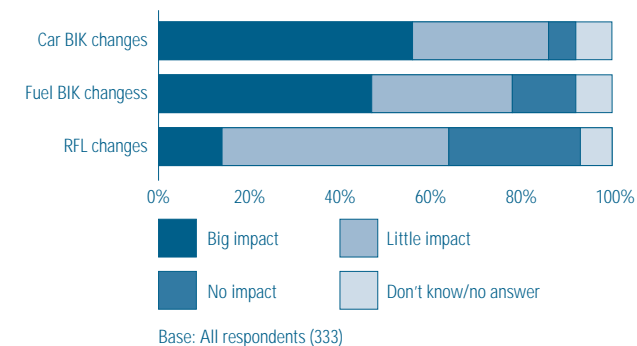
The tax changes will probably have an impact on the size and cost of operating a company car fleet in terms of changes in Road Fund Licences (RFL), car Benefits in Kind (BIK), and fuel BIK. Those taking part in the survey were asked to say the extent to which they feel these changes will impact on the operation of their car fleet.

Respondents clearly expect the changes in car and fuel BIK to have the greatest impact, with the changes to RFL having more limited impact.

The majority of all participants (79%) believe the proposed changes to the RFL will have little or no impact on the operation of their fleet, though those managing smaller fleets are slightly more likely to see the changes having at least some impact on their fleet operation.

In contrast, the impact of the BIK changes are more significant, with 56% of all respondents saying that car BIK changes will have a big impact and 47% saying this of fuel BIK changes. Very few believe the changes will have no impact on the operation of their car fleet.

Impact of changes

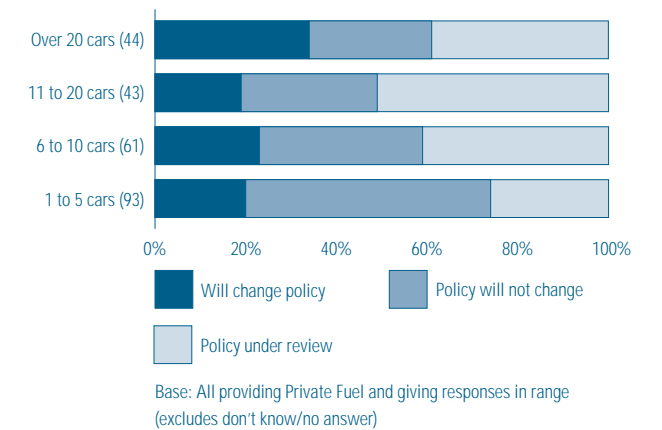


Impact on private fuel policy

Nearly three-quarters (72%) of those who responded to the survey suggest that they currently provide private fuel to their employees (although, in a subsequent question, few identified this as a part of their benefits package).

Over the last two years, the BIK charges on the provision of private fuel have increased by up to 20% per annum. Amongst those suggesting that they provide private fuel, nearly a quarter (23%) say that their policy will change in the future, and more than a third (37%) say that their policy is under review. The charges on private fuel appear to have had the greatest impact on the larger fleets, especially those with more than 20 vehicles, where nearly three-quarters (73%) say they will change, or are reviewing, their private fuel policy.

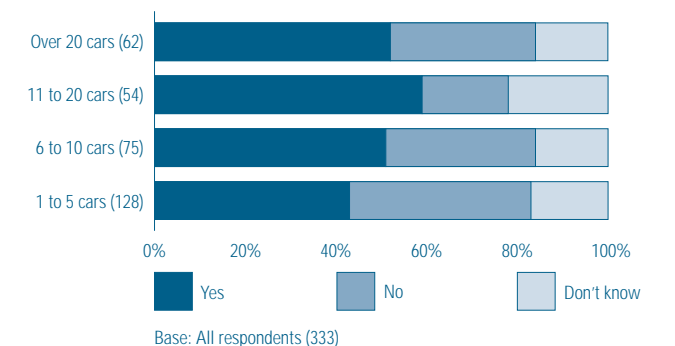
Impact of changes on private fuel policy



Impact on fleet composition/structure

The Chancellor's changes are likely to cause many companies, particularly those with larger fleets, to alter the composition and structure of their fleets: nearly half say that they will make alterations and a further one in five do not know yet how they will respond.

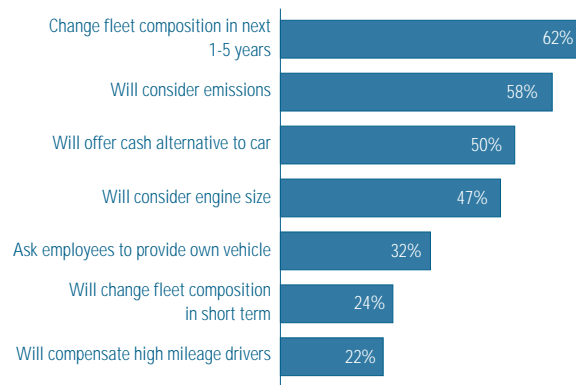
Will changes alter fleet composition/structure?



Amongst those expecting to make changes, a majority say they will change the composition of their fleets, if not immediately, at least over the next one to five years, suggesting evolutionary rather than revolutionary change in company car fleets.

Some companies will undoubtedly seek to substitute a cash alternative for a company car, whilst those who continue to provide cars will carefully consider the emissions and engine size of the cars in their fleet.

Effect of changes on fleet composition/structure



Base: All expecting changes to fleet composition and structure (157)

Impact on fleet size

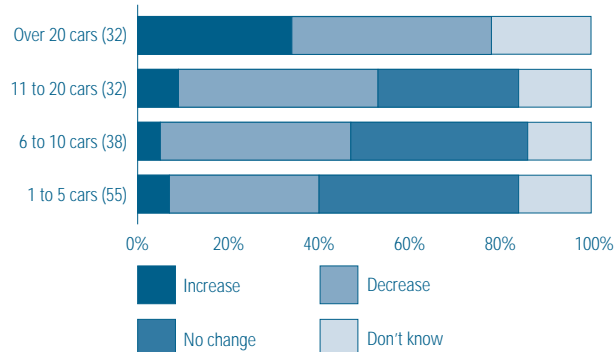
As mentioned earlier in this report, one way of compensating for the changes in company car taxation would be to reduce the size of the car fleet, though obviously any reduction in size needs to be carefully considered against any impact on the company's ability to function efficiently.

A significant proportion (38%) of those respondents expecting the composition and structure of their fleet to change expect to reduce the size of their car fleets (representing 18% of all companies responding).

The smallest and the largest fleets are a little less likely to make any changes to the size of their current fleets. This may suggest that many large fleets are more in tune with the changes and can make provision, whereas, for very small fleets, the financial impact of the changes may not justify any cuts in the size of fleet.

Of those who expect their company car fleets to decrease, the average expected decrease is just under 40%, with a few suggesting they may dispense with their fleet entirely.

Effect of changes on fleet size



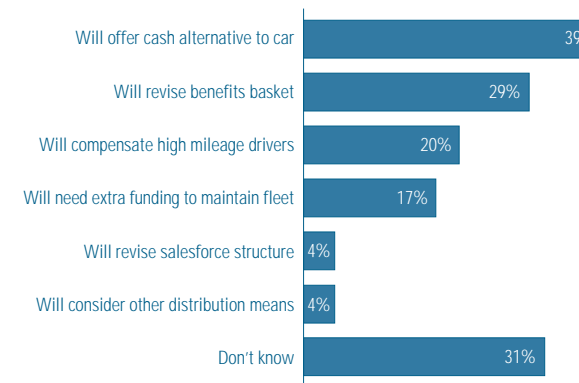
Base: All saying changes will have impact

Impact on business

The most common impact of the car tax changes is that companies will seek to review their policy of providing company cars to employees. Nearly two-fifths of companies say they intend to offer a cash alternative, whilst just under a third will revise the basket of benefits offered to employees.

If companies do make cuts or change the composition and structure of their car fleets, there could be an impact on the way in which their businesses are structured. However, very few intend to make any changes to their salesforce structure or their means of distribution, suggesting that the focus of company car provision will move towards only providing those that are for essential business use.

Effect of changes on business



Base: All respondents (333)

Whilst, currently, the norm is for businesses to provide company cars, responses suggest that the proportion of companies who offer a company car will fall from 93% to 79% over the next three years. This is more or less mirrored by the proportion offering a car allowance, which is expected to rise from 27% to 43%.

In line with this movement, the average number of employees with a company car, currently 30%, is expected to fall to 22% over the next three years, whilst the average proportion of employees receiving a car allowance will rise from 4% to 11%.

Whilst there will be an increase in the number of employees receiving a car allowance over the next three years, the average level of this allowance (currently £4,191) is expected to rise more or less in line with inflation.

Both sets of figures indicate a movement away from company cars to car allowances, though it is clearly unlikely that any more than a few companies will do away with company cars as a result of these changes.

Those participating in the survey were asked to indicate the package benefits currently offered to employees, and, if they are planning to change these benefits in the near future, which they will be adding or removing. Responses clearly reflect some of

Benefit	Currently offered	Adding	Removing
Car	86%	2%	20%
Pension	77%	9%	2%
Healthcare	66%	7%	2%
Fuel	64%	2%	15%
Car allowance	23%	18%	1%
Share options	12%	8%	-
Season ticket loan	5%	-	-
Childcare	1%	1%	-
Others	8%	2%	-
None	9%	69%	75%

the issues described earlier.

Whilst (in an earlier response) 93% of fleet managers say that their employees have a company car, only 86% say they currently offer a car as part of the package of benefits offered to employees, suggesting that some companies have already started to remove the company car option from their package.

The fact that 2% of fleet managers intend to add company cars to the package of benefits available to employees, whilst 20% intend to remove them, confirms the view that the number of companies providing company cars to their employees will decrease.

The provision of fuel will also follow the same trend, with 15% of companies saying that they intend to remove it as an employee benefit.

The table above suggests that, in the majority of cases where the company car benefit is to be removed, it will be replaced by a car allowance – although some increase in the provision of pensions and share options may reflect alternative ways of remunerating employees.

Environmentally friendly cars

The proposed changes to company car taxation make specific provision for environmentally friendly cars, i.e., those that run on electricity or a combination of petrol or gas and electricity.

Of the 333 respondents who participated in the survey, just nine (3%) say they currently have environmentally friendly vehicles in their fleet, although a further 14% say they are considering including such vehicles in the next three years.

Half of all respondents specifically say that they have no intention of considering the introduction of such vehicles in the next three years. These respondents cite a number of reasons for not doing so, notably:

- a) The cost of the vehicles is prohibitive or not cost-effective (13% of those not considering)
- b) Employees lack enthusiasm for such vehicles and would not select them by choice (13%)
- c) They are generally unsuitable or impractical as a business vehicle or for the roles in which they would be applied (11%)
- d) They are impractical to refuel/recharge (10%)
- e) Lack of choice/availability (9%)
- f) They are not suited to high mileage or long distances (8%)
- g) Poor performance (8%)
- h) Lack of boot/storage space (4%)

Some also point out that they are moving away from company cars and are intending to offer a cash alternative: as a result, the choice of car will rest with the employee rather than the company.

It appears that the current tax changes will do little to encourage the use of environmentally friendly vehicles unless companies or their employees provided with car allowances can be convinced of the financial benefits of buying such vehicles.

Tightening up CO₂ emission levels

Respondents' reactions to the Chancellor's proposed graduated programme that will "tighten up" on the CO₂ emissions of company cars are mixed.

Around half (49%) believe that the changes will create more hassle in terms of their P11D benefits reporting.

Around a quarter accept that there will be changes and that they will simply have to find extra funding for their car fleet.

A proportionally small number (16%) expect to consider increasing the frequency with which their company cars are replaced.

However, one in three are, as yet, unsure what effect the changes will have. This uncertainty is a little more likely to be found amongst those with small car fleets. In line with other research, it is often the smallest companies that are least aware of legislative changes and this suggests that the Government may need to do more to communicate its message to them.

Effective measures for an environmentally friendly society

In response to the question "What do you think would be the most effective measures that would create an environmentally friendly society?" respondents made a number of suggestions. The most common themes are:

- a) Improve public transport making it more efficient, cleaner, less crowded and more reliable (23%)
- b) Improve public transport infrastructure/railway infrastructure (10%)
- c) Encourage change through the use of tax incentives and penalties (10%)
- d) Make public transport cheaper (8%)
- e) Continued development of new sources of fuel and fuel technology (7%)
- f) Reduce car usage and restrict the number of unnecessary trips such as school runs (5%).

The Institute of Directors

The Institute of Directors is a non-political organisation with some 70,000 members world-wide, 54,000 in the UK, whose aim is to help directors to fulfil their leadership responsibilities in creating wealth for the benefit of business and society as a whole. To this end the IoD's Policy Unit is active across a range of economic and social issues of interest to business. Recent research has included:

An analysis of the 3 transatlantic 'open skies' agreement

A survey of the rail industry

A cost assessment of the Foot and Mouth disease outbreak

The implications of taxation on e-commerce

SMEs and stakeholder pensions.

These and other IoD publications and policy papers can be downloaded free from: www.iod.com/policy/press

Or from:

Policy Unit
Institute of Directors
116 Pall Mall
London
SW1Y 5ED
Tel: 020 7451 3291



Business advice that counts