

insight

a factsheet from Intelligent Fleet

Employee Car Ownership Schemes



About this factsheet

The purpose of this factsheet is to provide an overview of structured Employee Car Ownership (ECO) schemes including their application, pitfalls and our approach. If you require additional information, please contact ourselves.

Introduction

ECO Schemes are now a popular method of funding company cars and can generate significant cost savings. They came to the fore in the mid-1990's but back then they were seen by many as a tax avoidance scheme that wouldn't last.

More than 10 years on they are more popular than ever however, many schemes struggle with burdensome administration. HM Revenue & Customs are also taking a closer look at ECO schemes.

Under an ECO scheme, the employee enters into a contract for the vehicle over an agreed term. The employee funds payment for the vehicle through tax-free business mileage, their tax saving from no longer having a company car, and a salary top-up where required.

ECO schemes constantly evolve

In the early days, ECO schemes were easy. You could get away with using estimates within the schemes, decide yourself how much to pay tax-free for business mileage and then reconcile any differences at the end of the tax year. The taxman was perfectly happy with this.

Unfortunately today, it's not that simple; although many would have you believe it is. The taxman is much more clued up on ECO schemes than he used to be – even the HM Revenue & Customs manuals now dedicate a section to them. No longer can you rely on using estimates and reconciling annually.

These days, schemes need to be water-tight using the tax legislation as intended. That doesn't mean that schemes need to be more complex or involve more administration, it just means working smarter and using technology where possible.

A well structured ECO scheme can significantly reduce fleet costs. However, getting an ECO scheme wrong can be extremely costly. Common mistakes include:

- HM Revenue & Customs are not provided with the full facts of the scheme, leaving it open to attack
- Too much focus on technical aspects of the scheme and not enough on operational performance of the car fleet provider
- No consideration of the impact of potential future tax changes
- No exit plan to unwind the scheme if it is no longer suitable
- Local agreements with HM Revenue & Customers which may not be reliable long term
- Not enough focus on non-standard issues such as early terminations, reallocations, end of contract charges, etc

Who are ECO schemes for?

ECO schemes are not for everyone. There are generally three categories of organisation where an ECO scheme may be suitable:

1. The fleet profile is such that an ECO scheme will generate significant cost savings
2. Certain funding restrictions exist which mean that traditional company car acquisition is not appropriate
3. There is an absolute requirement to reduce employee company car tax liabilities to retain staff

By far the most popular reason for entering into an ECO scheme is to generate cost savings. The level of cost savings depends on a large number of factors such as mileage, tax rates, vehicle discounts etc.

To ascertain the potential level of savings, detailed analysis is required. Simply running the numbers on a few benchmark vehicles will not be sufficient.

Our approach to ECO schemes

Our philosophy for ECO schemes is based upon a number of key issues as follows:

- HMRC tax-free mileage rates should be utilised in full, maximising savings
- The scheme must fit squarely within the tax legislation and potential future changes must be considered
- It must be easy to understand from an employer and employee perspective
- All transactions relating to the vehicle lifecycle must be dealt with in a straightforward manner
- Administration should be minimised

Our ECO scheme incorporates all of the above and is supported by appropriate technology including our "mileagebase" mileage capture system. Our services include:

- Feasibility study
- Scheme design

- HM Revenue & Customs approval
- Employee communications
- Scheme administration, management and reporting

For further details on the scheme and a free initial consultation please contact us.

Existing ECO scheme?

If you have an existing ECO scheme, we can undertake a full "health check" to identify any improvement opportunities. For example, you may feel that:

- your scheme is not be delivering the savings anticipated
- you are concerned over tax compliance
- administration costs are too high

As well as ensuring that you have a robust scheme in place, we can also take over the management and administration of your scheme. This will enable you to concentrate on your business and rely on us to ensure that your scheme operates correctly.

For a free initial consultation please contact us.

About Intelligent Fleet

Intelligent Fleet is a specialist fleet consultancy aimed at providing leading-edge solutions to UK businesses. Our consultants are professionally qualified and have many years of fleet experience. We can advise in most areas of fleet provision, including:

- Fleet policy, including car benefit effectiveness, cash allowances, environmental impact
- Cost efficiency including tax optimisation, funding arrangements, ECO schemes
- Management of occupational road risk including appropriate policies and procedures
- Operational delivery including processes, service levels, tender support

Through our experience we have been able to create a unique products and services offering. Our unique mileagebase mileage capture system enables us to offer a range of specialist solutions aimed at reducing the cost of:

- Private fuel provision
- Cash allowances and Employee Car Ownership schemes
- Business fuel costs

In addition to the above, our technology also supports the management of occupational road risk, in particular for those who use their own vehicle for work. For further details visit our website at www.intelligentfleet.co.uk.

Whether you are a fleet operator or fleet supplier, our consultants have the qualifications and experience to deliver practical workable solutions to your business.

www.intelligentfleet.co.uk

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