GE Capital
Fleet Services

elite partner

Fleet Fundamentals 2011

A guide publication to the key fiscal and legal fundamentals impacting your fleet

GE imagination at work

Welcome

Next to your employees and buildings, your fleet is likely to represent one of the highest costs in your business. Added to this, businesses now operate with the increasing responsibility to consider their duty of care to their employees and also the environmental impacts of their activities.

Now, more than ever, fleet management is high on the Financial, Health and Safety and Corporate Social agenda. Fleet Fundamentals provides a practical guide that covers the latest fiscal and legislative changes that may impact your fleet.

Did you know?

Looking at lease rental alone can be misleading ...on average this figure represents only **42%** of the total costs in running a fleet.

The average fleet car costs **£7,500** per year to run, including all taxes & fuel, with the driver paying **£2,000** per year in tax. (P11D price of **£25,000** CO_2 emissions of 139g/km and BIK of **20%**).

Reducing a fleet's CO_2 by 20g/km can save **£55,000** in National Insurance alone over the fleet's lifetime. (Assuming a 100 car fleet over 4 year cycle).

With VAT increasing to **20%** the cost of leasing is typically **12%** less than outright purchase.

A comprehensive Duty of Care programme can save **20%** of your future accident costs with driver training delivering a reduction in the number of serious accidents.

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There is no doubt the UK Government is looking to implement a cohesive environmental strategy for both fleet cars and private vehicles. Tax changes, fuel duty and congestion charging are a few of the measures introduced with a view to reducing our collective carbon footprint.

The message is simple; the more economical and efficient your fleet, the less you and your drivers will pay in tax.

Benefit-in-Kind Taxation (BIK)

Cars (BIK)

Where a car is made available for an employee's private use, a taxable benefit arises under sections 114 and 120 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA). Company car tax was reformed in April 2002 and is now based on the CO_2 emissions of the car, and calculated by applying the appropriate percentage to the list price of the car.

In the March 2011 Budget the Chancellor announced that the 10% BIK threshold will reduce in April 2013 from 99g/km to 94g/km and that BIK will increase by 1% for all cars with emissions between 95g/km and 220g/km. The new low-CO_2 incentive for cars emitting between 1g/km and 75g/km CO_2 (inclusive) BIK will remain at 5% (8% for Diesels). For those vehicles emitting 0g/km CO_2 tail-pipe emissions there is a complete exemption from BIK. Both of these currently run until April 2015.

The BIK Cap for cars with a P11D price of more than £80,000 is removed from the tax-year starting April 2011.

Alternative Fuel Discounts

Alternative Fuel Discounts are removed for higher CO_2 emitting cars from the tax-year April 2011.

The table opposite shows taxable percentages applicable from April 2010 to March 2014

Benefit in Kind CO_2 Bands by Tax Year				
CO_2 Emissions g/km	2010/2011	2011/2012	2012/2013	2013/2014
Zero Emissions	0%	0%	0%	0%
1 to 75	5%	5%	5%	5%
76 to 94	10%	10%	10%	10%
95 to 99	10%	10%	10%	11%
100 to 104	10%	10%	11%	12%
105 to 109	10%	10%	12%	13%
110 to 114	10%	10%	13%	14%
115 to 119	10%	10%	14%	15%
120	10%	10%	15%	16%
121 to 124	15%	15%	15%	16%
125 to 129	15%	15%	16%	17%
130 to 134	15%	16%	17%	18%
135 to 139	16%	17%	18%	19%
140 to 144	17%	18%	19%	20%
145 to 149	18%	19%	20%	21%
150 to 154	19%	20%	21%	22%
155 to 159	20%	21%	22%	23%
160 to 164	21%	22%	23%	24%
165 to 169	22%	23%	24%	25%
170 to 174	23%	24%	25%	26%
175 to 179	24%	25%	26%	27%
180 to 184	25%	26%	27%	28%
185 to 189	26%	27%	28%	29%
190 to 194	27%	28%	29%	30%
195 to 199	28%	29%	30%	31%
200 to 204	29%	30%	31%	32%
205 to 209	30%	31%	32%	33%
210 to 214	31%	32%	33%	34%
215 to 219	32%	33%	34%	35%
220 to 224	33%	34%	35%	35%
225 to 229	34%	35%	35%	35%
230 to 234	35%	35%	35%	35%
235 and above	35%	35%	35%	35%

N.B. There is a 3% supplement applied to all Diesel cars, which is capped so as to restrict the total percentage to a maximum of 35%.

Vans (BIK)

If you make a van available to your employees and they use it privately for journeys other than commuting your employees have to pay tax on this as a benefit. In addition, further tax liabilities arise if fuel is provided for private use in that van.

Benefit in Kind on Vans remains unchanged with the scale charge for unrestricted use at £3,000, upon which tax is charged at the prevailing employee rate; and the charge for private fuel remaining at £550.

From April 2010 Electric Vans will have 0% BIK for a period of 5 years.

Vehicle Excise Duty

From April 2010 the Vehicle Excise Duty system for cars changed significantly with the introduction of a new 'first year' rate for new cars, sometimes referred to as a 'showroom tax'. This allowed for a higher rate of tax, than for subsequent years, for cars with CO_2 outputs greater than 165g/km.

Vehicle Excise Duty for Cars registered on or after 1 March 2011-2012 standard rates*

VED band	CO_2 emissions (g/km)	Standard rate 2011-12*
A	Up to 100	£0
B	101 - 110	£20
C	111 - 120	£30
D	121 - 130	£95
E	131 - 140	£115
F	141 - 150	£130
G	151 - 165	£165
H	166 - 175	£190
I	176 - 185	£210
J	186 - 200	£245
K**	201 - 225	£260
L	226 - 255	£445
M	Over 255	£460

Vehicle Excise Duty for brand new Cars: 2011-12 first-year rates

VED band	CO_2 emissions (g/km)	2011-12	Alternative fuels 2011-12
A	Up to 100	£0	£0
B	101-110	£0	£0
C	111-120	£0	£0
D	121-130	£0	£0
E	131-140	£115	£105
F	141-150	£130	£120
G	151-165	£165	£155
H	166-175	£265	£255
I	176-185	£315	£305
J	186-200	£445	£435
K**	201-225	£580	£570
L	226-255	£790	£780
M	Over 255	£1,000	£990

* Alternative Fuel discount: 2010/11 onwards £10 for all cars

** Includes cars emitting over 225g/km registered before 23 March 2006

Vans (VED)

Vehicle Excise Duty rates for vans registered on or after 01 March, 2001			
VED band	**2009-10**	**2010-11**	**2011-12**
Euro 4* &5** discount rate	£125	£125	£130
Standard rate	£185	£200	£210

Advisory Fuel Rates

Advisory Fuel Rates (AFR) refer to the HMRC advisory payment that employers can make in reimbursing employees for the cost of fuel used for business travel.

AFRs may apply where an employer;

> reimburses an employee for business travel in their company car, or

> requires an employee to repay the cost of fuel used for private travel.

1st June 2011				
Engine size band	**Petrol**	**LPG**	**Engine size band**	**Diesel**
1400cc or less	15 ppm	11 ppm	1600cc or less	12 ppm
1401cc to 2000cc	18 ppm	13 ppm	1601cc to 2000cc	15 ppm
Over 2000cc	26 ppm	18 ppm	Over 2000cc	18 ppm

(ppm = Pence Per Mile)

The AFR rates are reviewed twice a year. Any changes take effect on 1 December and 1 June and are published on the HMRC website **(http://www.hmrc.gov.uk/cars/advisory_fuel_current.htm).** HMRC will consider changing the rates if fuel prices fluctuate by 5% from the published rates at the review period, and they consider the price change will be sustained. The recent price fluctuation triggered an increase in the AFR rates with effect from 1st March 2011.

If the rate paid per mile of business travel is no higher than the advisory rate for the particular engine size and fuel type of the car, HMRC will accept that there is no taxable profit and no Class 1 NICs liability. This reflects the fact that they are intended to reflect actual average fuel costs.

Advisory fuel rates do not apply to vans due to the lack of official van fuel consumption figures and the erratic nature of commercial vehicle fuel consumption due to the variation in loads carried by LCVs.

Approved Mileage Allowance Payment (AMAP)

The AMAP rate increases from 40p per mile to 45p per mile with effect from 6th April 2011, for the first 10,000 miles and remains at 25p per mile thereafter.

Vehicle Type	Business Miles	20011/12 Onwards
Car or van	first 10,000	45p
Car or van	after 10,000	25p
Motor cycle	all	24p
Cycle	all	20p

These rates apply where employees use their own cars for business travel and equate to the maximum amount an employee can receive without paying tax. An additional 5p per mile is available for each business passenger. With the exception of this passenger rate, where the employer pays less than the AMAP rate the employee can claim mileage allowance relief (MAR) on the difference. Note that for NIC purposes the rate of 45p per mile can be utilised up to 10,000 miles in each earnings period.

Fuel Duty

The planned 1p per litre duty increase on petrol and diesel for April 2011 has been deferred to January 2012 at which time fuel duty will increase by 3.02p per litre.

The main fuel duty rate has been reduced by 1p per litre from 23rd March 2011. The fuel duty escalator has been replaced with a fair fuel stabiliser, which will result in fuel duty increases in line with inflation when oil prices are high. However, when the oil price falls below a set trigger price (estimated at $75 per barrel) on a sustained basis, the Government will increase fuel duty by inflation plus 1p per litre.

Private Fuel

An additional taxable benefit arises from section 149 of the Income Tax (Earnings and Pensions) Act (ITEPA) 2003 if the employee receives free fuel for the company car for their private use. The company car fuel benefit tax charge was reformed in April 2003 to align with the environmental principles of the company car tax system. Since April 2003, the fuel benefit charge has been calculated by applying the company car tax appropriate percentage to a set figure known as the multiplier.

For the tax year 2011/12, the multiplier rises to £18,800 (increase of 4% from £18,000).

For example a diesel car that has CO_2 emissions of 139g/km - The percentage used to calculate the company car tax charge for 2011/12 is 20%. The taxable benefit for receipt of private fuel will be £18,800 x 20% = £3,760, a 40% tax payer would incur a tax charge of £1,504 per annum

Where private fuel ceases to be provided to an employee during the tax year, they will be required to pay only the proportion of the full annual tax charge related to the part of the year until the provision of private fuel has stopped. However, if private fuel is subsequently provided again during the same tax year, the employee will incur a tax charge for the full year.

VAT Fuel Scale Charge

Where employees receive a private fuel benefit, the employer will be subject to a VAT fuel scale charge in addition to the National Insurance charge on the provision of the benefit.

CO_2 Emissions	From 01/05/2011	VAT on 12mth Charge
Below 120	£630.00	£105.00
125	£945.00	£157.50
130	£1,010.00	£168.33
135	£1,070.00	£178.33
140	£1,135.00	£189.17
145	£1,200.00	£200.00
150	£1,260.00	£210.00
155	£1,325.00	£220.83
160	£1,385.00	£230.83
165	£1,450.00	£241.67
170	£1,515.00	£252.50
175	£1,575.00	£262.50
180	£1,640.00	£273.33
185	£1,705.00	£284.17
190	£1,765.00	£294.17
195	£1,830.00	£305.00
200	£1,890.00	£315.00
205	£1,955.00	£325.83
210	£2,020.00	£336.67
215	£2,080.00	£346.67
220	£2,145.00	£357.50
225	£2,205.00	£367.50
230	£2,205.00	£367.50
235 or more	£2,205.00	£367.50

Corporation Tax

A series of new measures regarding tax relief on Company Car expenditure came into effect in April 2009. The changes essentially made CO_2 emissions the driving force behind a company's car fleet corporate tax position.

In the first instance, relating to purchased vehicles, the CO_2 led changes to Corporation Tax Capital Allowances (also called Writing Down Allowances) impact the owner of the asset.

In the second, where vehicles are leased, Corporation Tax Lease Rental Relief becomes CO_2 emission based, replacing the older Expensive Car Leasing Disallowance.

Corporation Tax Rates

The main rate of Corporation tax will reduce from 28% to 26% in 2011-12 with further 1% reductions in 2012-13, 2013-14 and 2014-15. The small profits rate, which was due to increase from 21% to 22% in 2011, will in fact reduce to 20% from April 2011.

Corporation Tax Rates for financial years starting on 1 April							
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Small Profits Rate	21%	21%	21%	20%	20% (TBA)	20% (TBA)	20% (TBA)
Main rate of Corporation Tax	28%	28%	28%	26%	25%	24%	23%
Special rate for unit trusts and open-ended investment companies	20%	20%	20%	20%	20%	20%	20%

Corporation Tax Capital Allowances

Capital Allowances for financial years starting on 1 April			
	2010	**2011**	**2012**
Low Emission Cars CO_2 <111g/km	100%	100%	100%
Electric Vans	100%	100%	100%
Vans	20%	20%	18%
Cars CO_2 111g/km to 160g/km	20%	20%	18%
Cars CO_2 >160g/km	10%	10%	8%

The ability to claim 100% first year allowances when buying new low-emission cars is becoming increasingly important as the number of cars available with emissions of 110g/km or less increases. 100% first year allowances are also available on expenditure incurred on new Electric Vans.

Corporation Tax Lease Rental Relief

For vehicles leased after April 2009 the new CO_2 based mechanism has 160g/km as the pivotal emissions figure. Companies are now able to claim full tax relief on rental payments where the car has emissions less than or equal to this level. For cars with emissions of 161g/km and above, only 85% of the rental payments will be available for tax relief.

National Insurance

National Insurance rates will increase by 1% for both Employers and Employees with effect from April 2011. Consequently, costs of employment will increase for all employees as both salary payments and Benefits in Kind attract Employer NI contributions. Employees do not pay National Insurance on a Company Car benefit and so will be unaffected. However, employees that elect to receive a cash allowance will face increased costs.

Class 1A NICs: thresholds

Class 1 NICs thresholds	Figures to use 2011-12		
	Per Week	Per Month	Per Year
Lower earnings limit (LEL)	£102	£442	£5,304
Primary Threshold (PT)	£139	£602	£7,225
Upper accrual point (UAP)	£770	£3,337	£40,040
Upper earnings limit (UEL)	£817	£3,540	£42,475

Class 1A NICs: rates for employee and employer contributions April 2011-12

NICs category	Earnings below LEL	Earnings from LEL up to and including ET	Earnings above ET up to and including UAP	Earnings above UAP up to and including UEL	Earnings above UEL
Employee	NIL	0%	12%	12%	2%
Employer	NIL	0%	13.80%	13.80%	13.80%

Value Added Tax

The standard rate of VAT increased to 20% with effect from 4th January 2011 (there will be no change to the 5% reduced rate).

The Employer

The impact will depend on whether a company buys or leases its company cars:

> Where a company leases a car, the lease rental that they pay will not change as this is based on the ex-VAT price of the car. However, the VAT charged by the leasing provider will increase to 20%, half of which will be blocked. On a monthly lease rate of £300 per month the irrecoverable VAT will increase from £26.25 to £30.00. Over a 4 year period this equates to a cost increase of £180.

> Where a company buys a car, the VAT charged on the purchase is irrecoverable (where there is any private usage of the car). Therefore any increase in VAT represents a direct cost increase for the company. Based on an ex-VAT price of £20,000 the increase in purchase cost equates to a cost increase of £500.

The Employee

At first it may seem that the employee receiving a company car benefit would be unaffected by an increase in VAT, however;

> The increase in VAT will result in a higher P11d price for the car, meaning that there will be a corresponding increase in the Benefit in Kind and the resultant income tax. Taking the same £20,000 ex-VAT car, the P11d price will increase by £500. Assuming a CO_2 rating of 140g/km the corresponding increase in Benefit in Kind will be £105 (assuming diesel), costing a basic rate tax-payer an additional £21 per annum.

> Employees that do not receive a company car will face the full increase of the VAT applied to the purchase price, in this example £500.

Legal Fundamentals

- Corporate Manslaughter Act
- Risk Management
    - Mobile phone use
    - Driver hours/tired driving
    - Training
    - Licence checks
    - Vehicle checks
    - Grey fleet
- Smoking

Corporate Manslaughter Act

Background

The Corporate Manslaughter and Corporate Homicide Act 2007 which came into statute in April 2008 was designed to simplify the way in which a prosecution takes place for a non-accidental at-work death.

Previously the law stated that an individual within a company had to be found responsible for a death in order for a prosecution to succeed.

The 2007 Corporate Manslaughter Act does away with this and now a company and its directors can be found guilty if a significant element of the serious management failure was at senior management level.

The Act also covers Government departments and organisations such as the police and armed forces, rather than just private business.

Key points

- Focuses on senior management either individually or collectively.
- Wider remit to include Government departments/organisations as well as private business.
- Requires business to show a duty of care to staff.
- Requires evidence of gross breach of this duty of care through management failure.

Duty of Care

With regards to fleet and transport managers the Corporate Manslaughter Act means that employers have a duty of care toward all at-work drivers, including both company car drivers and those driving their own cars on company business.

Criteria for a prosecution

During an investigation following a fatality involving an at-work driver, the authorities will look at the management and any health and safety related processes, or lack thereof.

While the responsibility will fall to senior employees (director level) the Act does encompass those senior managers who have a significant role in health and safety across an entire company or organisation. This means some fleet and transport managers could fall into the scope of the Act.

Following a fatality involving an at-work driver, their activity will be compared to guidelines issued by the Health and Safety Executive and other relevant documents such as the Highway Code.

Punishment

The penalty for being found guilty is an unlimited fine on the organisation, although the guidelines for this state 10% of the organisation's turnover. However an amendment to the Act in March 2010 makes it possible for the court to order the company to publicise the conviction.

Risk Management

Overview

Risk management is exactly that. There will always be risks, but employers have to manage them in order to keep them at the lowest possible level. To achieve this employers must first write a policy document covering driving risks. This should include aims - a simple one would be to reduce the number of accidents year-on-year. The policy should effectively lay down the rules for those involved in any aspect of at-work driving. Points to cover include an alcohol policy, insurance, phone use, who can drive, journey planning and who is responsible for what.

Once the policy is agreed a senior member of staff should be placed in charge, empowered with a mandate to carry out the work needed and enforce the regulations where necessary.

The policy requires a robust reporting system and employees need to be made aware of their obligations; and as such checks should be carried out to confirm these have been understood.

When the policy is in place, monitoring and data collection is required to ensure that appropriate action is taken where required.

Risk management is circular, so at this point any actions taken need to be monitored to check they have had the desired effect. A wider review is also recommended on a regular basis to make sure that new legislation is taken into account and that any new development is absorbed into the system.

Phone use

The use of a hand-held mobile phone while driving is illegal. This should be made clear in your risk management policy. Many companies opt for a 'car on, phone off' rule, which is clear and simple. Remember it's being on a call, rather than the physical act of holding a phone that creates the distraction.

Whichever policy you choose it should be adhered to; and as such employees in the office should not encourage drivers to use their phones by calling them and expecting them to answer.

One reason for allowing hands-free phone use where a driver deems it of little risk is, for instance, if a driver has just set off for a meeting two hours away and then receives a call that tells him the meeting has been cancelled.

Driver hours

Driving whilst tired is on a par with phone use from a risk perspective, employers should make sure they have a policy that allows drivers to take breaks every two hours and also covers long working hours. Sensible journey planning is vital here so that sales teams do not have unrealistic visit targets that encourage drivers to ignore safety rules.

Training

While there isn't a specific requirement for employers to train their drivers, it's advisable to use some sort of monitoring or testing to identify which drivers could benefit most from additional training. This specific group can be targeted directly, which saves having to spend money on training all drivers.

Once again, the effectiveness of this should be measured to make sure it's having the desired impact.

Licence checking

Driver licence monitoring is one of the simplest checks to administer, but it is also one that is often undertaken without proper controls. With this in mind, it's one of the areas that accident investigators will look at first.

Process is all-important here. Licences should be checked before an employee starts driving for work and then regularly thereafter. There is some discussion over how frequently these should be carried out, but six monthly is considered to be industry best practice.

Checks should not just be visual, as a disqualified driver may produce a fake licence if his or her job is at stake.

Checks are best carried out either directly through the DVLA or through an approved licence-checking agency, risk management firm or leasing provider. In order to achieve this employers will need the driver's permission, rather than the licence itself. This method will save the employer having to chase the driver to provide a licence.

Permission for these checks should, ideally, be included in the contract of employment.

Vehicle checks

The responsibility for vehicle maintenance should be clearly set out in a company's driver handbook and risk management policy.

These documents should outline who (the driver or company) should carry out certain tasks, such as tyre pressure, tread depth and oil level as well as servicing. A number of companies are now outsourcing these checks to specialist third parties who will often perform the checks for free, providing they are able to undertake any corrective measures needed.

If a company requires its drivers to carry out such checks it must ensure the drivers know what to do, and that they are completing the necessary checks.

Grey fleet

Risk management needs to extend to cover all at-work drivers, including those employees using their own cars on company business. In particular attention should be paid to ensure that those personal vehicles have the correct level of insurance for use on business, and that they have been fully maintained, are the required condition and are suitable for business purpose.

Smoking ban

On 1st July 2007 smoking was banned in the workplace, and this law extended to company cars used by more than one employee. This effectively meant that it was banned from all company cars, because while a car may only be driven by one employee at a time, they may carry colleagues or customers and should the employee leave, the car may be used by a second member of staff.

Whilst the fines for drivers caught smoking at the wheel are relatively small, and very few have been caught, it is the responsibility of the employer to make sure the workplace stays smoke-free. Failure to do this can result in a fine of up to £2500. However, since the law came into effect, no companies have been prosecuted for failing to prevent smoking in company vehicles.

In the case of company cars it's enough to write into a handbook, which employees must read, that smoking is banned and put no smoking stickers into vehicles. These stickers should be visible to all passengers and from the outside of the car or van.

Glossary of Terms

AMAP (Approved Mileage Allowance Payments)

Employers can reimburse business miles travelled by employees for business purposes in their own private car up to the maximum rate per mile. Any payments over the rate are taxable on the employee and if any payments made below the maximum rate per mile, the employee can claim the difference.

Advisory Fuel Rates

The advisory fuel rates (guidelines on **fuel only** mileage rates for company cars) were first published in January 2002. It has been possible to use them since then to negotiate dispensations for mileage payments for business travel in company cars.

Benefit in Kind

This is a benefit other than cash given to employees as part of their employment package. If you are a director or an employee earning more than £8,500 p.a. when you have the benefit of a company car, you become liable to Benefit in Kind (BIK) taxation. The amount you pay depends on the P11D price of the vehicle, its CO_2 emissions, and the fuel type used by the vehicle.

Capital Allowances for Cars

Capital Allowances is a system that allows companies to offset the cost of assets used for their business against their tax bill.

Company Car

Is not owned by the employee, but is provided by an employer for the 'private & business use' of an employee or director, or a member of their family or household. Note that private use includes ordinary commuting journeys, i.e. home to work.

Employee Car Ownership Schemes

An Employee Car Ownership scheme refers to a genre of products whereby the title in the vehicle lies with the employee. The employee is subsequently liable for all charges, but is typically made equal by the employer. By definition there is no benefit in kind due on the vehicles and this amount is treated as a 'saving' in the total cost of provision.

Grey fleet

Grey fleet refers to employees, who are not eligible for either a company car or a cash allowance, but use their personal car on occasions for company business; or employees who are in receipt of a cash allowance paid in lieu of a company car and use their personal cars for company business.

P11D / List Price for Tax

The P11D is the list price of the car, the day before it was registered, including delivery charges but excluding Road Fund Licence and 1st Registration Fee. **N.B**. this is not the price you pay for the car.

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