business car manager

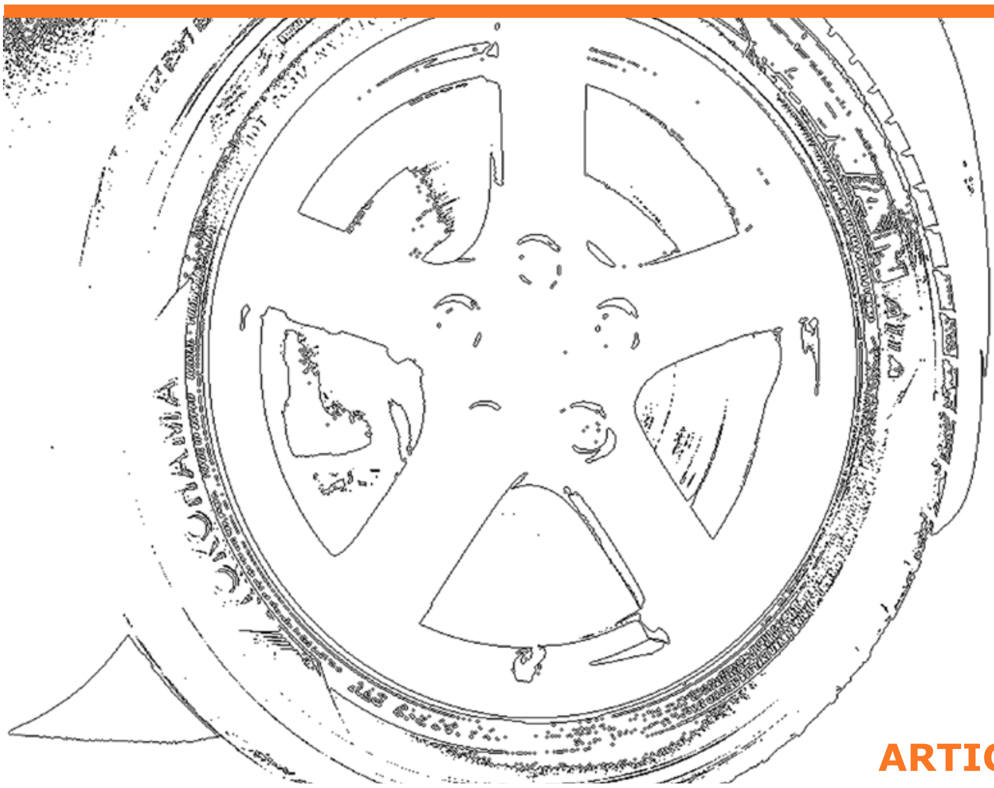
The business motoring magazine

Knowledge

Produced in association with

TOTALCARD

www.total.co.uk/totalcard



ARTICLE 35

A guide to employee car ownership schemes (ECOs)

A guide to employee car ownership schemes (ECOs)

Features

Employee car ownership schemes are employer-sponsored schemes that use credit sale agreements to reduce the overall tax burden of providing cars to employees. Some organisations call these Employee Car Ownership Scheme, Employee Car Ownership Plans, Structured Leasing Schemes and Structured Car Purchase Schemes. HMRC generally calls them Employee Car Ownership Schemes.

By utilising credit sale agreements title in the vehicle passes immediately to the employee at the inception of the agreement. This is important as section 157 Income and Corporation Taxes Act 1988 says that company car benefit-in-kind tax only applies where a car is made available by reason of the employee's employment and where title to the vehicle has not passed to the employee. So if a scheme can be put together where title does pass to the employee, it will be outside the scope of benefit-in-kind tax. This does not mean that it will avoid taxation completely, just the company car benefit-in-kind tax.

There are many hurdles to trip the unwary, however, and parts of any such scheme may cause other taxable benefits to arise.

These schemes are complex to set up and require ongoing management and tax consultancy.

They can be very expensive too. Fleets with a few hundred vehicles are being asked to pay set-up consultancy fees of more than £100,000.

These schemes work by giving the employee a cash allowance. The cash allowance will need to be amended when there is a change in:

- the driver's circumstances (eg their business and personal mileage)
- the rate of income tax they pay
- general rates of corporation tax or
- National Insurance contribution rates.

These schemes are generally unsuited to companies with high levels of staff turnover.

HM Revenue and Customs has been willing to check and pre-approve ECO schemes - a sensible precaution for any employer or supplier.

A guide to employee car ownership schemes (ECOs)

The Tax Avoidance Regulations 2004 introduced new rules that make it mandatory for taxpayers and their advisors to disclose existing and new 'arrangements' where the main benefit is to reduce the amount of income, corporation or capital gains tax paid. These arrangements cover loans – including loans to employees – and would almost certainly cover the credit sale agreements on which most ECO schemes are based. The new rules include detailed disclosure requirements .

Once details have been submitted the government has new powers to block the scheme.

At the time of writing it is difficult to see whether these new rules will affect ECO schemes, particularly as almost all ECO schemes are already approved by HM Revenue and Customs. A lengthy HMRC review has concluded that no additional tax needs to be levied on properly-constituted ECO schemes.

You are strongly advised not to make any change to the scheme without going back to HM Revenue and Customs to get the changes approved.

There is a parallel to be drawn between an employee car ownership scheme and a final salary pension scheme. The employer takes on an open-ended risk on both.

ECOS represents perhaps 3% of the fleet market.

Benefits and disadvantages

If correctly established, an employee car ownership scheme will allow an employee to have all of the benefits of a company car, while the employer, and possibly also the employee, saves money.

The disadvantages are that these schemes are extremely costly to set up, require long term assistance and consultancy from external experts and will require reworking every time there is a change in tax rates or rules.

If you are keen to explore these schemes, the message is the same as with any other major change: shop around, do your research, involve all interested parties within your business (purchasing, human resources, finance, legal) and only proceed when you are sure that it will not cause major problems to your business.

This is an edited extract from *Managing Your Company Cars* by Colin Tourick, which you can purchase from **www.tourick.com.** For more on Total Card **visit www.total.co.uk/totalcard**