

Guide

# ARE YOUR EMPLOYEES REALLY BENEFITING FROM PRIVATE FUEL?

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Private fuel has, for a long time, been viewed as a benefit for employees, but for the vast majority of drivers it can actually make them financially worse off. While it is considered a tax inefficient way for an employer to provide remuneration value, it has also become expensive for many company car drivers. For anyone driving a car with a P11D price of less than £25,800 the tax cost of private fuel now outweighs the tax cost of the car. Let's look at the example right:

Vehicle make and model	Audi A3 Sportback 30 TFSI Sport 116 PS	
Tax year	2020/21	2021/22
Taxable benefit	£7,105.00	£7,350.00
Expected Fuel Consumption (mpg)	47.9	47.9
Expected fuel cost (pence per litre)	108.73	108.73
Marginal tax rate (%)	20	20
Tax payable	£1,421	£1,470
Break even personal mileage	12,016	12,430

Vehicle make and model	BMW 520D SE Auto	
Tax year	2020/21	2021/22
Taxable benefit	£8,085.00	£8,330.00
Expected Fuel Consumption (mpg)	56.5	56.5
Expected fuel cost (pence per litre)	128	128
Marginal tax rate (%)	40	40
Tax payable	£3,234	£3,332
Break even personal mileage	31,400	32,352

\*Based on AA average fuel price February 2020

It can be seen from the table on the left that employees need to complete a high personal mileage to gain any benefit from having private fuel. In reality, for most company car drivers, free private fuel is very expensive both financially and environmentally, as it encourages uneconomical driving behaviours.

The employee position is only one half of the equation however. There is also a cost to the employer for providing this benefit:

### BMW 520D SE Auto - 9,000 private miles per annum (2020/21)

	Employee		Employer
Free fuel	£927	Free fuel excl. VAT	£742
Tax cost	(£3,234)	National Insurance	£1,827
Net benefit / Cost	(-£2,307)	VAT scale charge	£947
		<b>Cost</b>	<b>£3,516</b>

### BMW 520D SE Auto - 35,000 private miles per annum (2020/21)

	Employee		Employer
Free fuel	£3,605	Free fuel excl. VAT	£2,884
Tax cost	(£3,234)	National Insurance	£539
Net benefit / Cost	£371	VAT scale charge	£947
		<b>Cost</b>	<b>£4,370</b>

- At an annual private mileage of 9,000 miles, for a cost to the employer of £3,516 the employee will be £2,307 worse off
- At an annual private mileage of 31,400 miles, for a cost to the employer of £4,073 the employee is break-even
- At an annual private mileage of 35,000 miles, it will cost the employer £4,370 to provide a £371 benefit to the employee

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Companies can conduct an initial self-assessment to review whether their drivers are benefitting from the provision of private fuel. First, let's look at the three options for car drivers using the example of the BMW driver outlined on the previous page:

- 1. Discontinue, no buy-out necessary** – both the employee and employer are better off by discontinuing the benefit (in the example on the previous page, below a mileage of 31,000 per annum).
- 2. Discontinue, buy-out recommended** – both parties are better off by paying as salary rather than as private fuel (in the example on the previous page, between 31,000 and 46,000 miles per annum).
- 3. Continue benefit** – both parties are better off by continuing to provide fuel rather than as continuing to provide fuel as part of a remuneration package.

**\*Buy-out:** an employer agrees a financial settlement paid directly to the employee if they remove the option of private fuel.

**The removal of this benefit could provide large savings for businesses by not having to pay NI/VAT Scale Charge and the fuel itself. In addition to the direct costs of the provision of private fuel, as detailed above, there are also substantial indirect costs that result from typical driver behaviours:**

**Cost of fuel** – drivers are less focused on the fuel stations used and the price paid. Fuel cards can contribute to some extent in this area but only at the expense of card acceptability.

**Car selection** – employees in receipt of private fuel are less concerned with the fuel efficiency of their company car than those employees not in receipt of private fuel.

**Driving style** – there is no personal incentive for an employee in receipt of private fuel to drive efficiently. An improvement in this area can lead to an immediate and dramatic increases in fuel efficiency.

**Fuel quantity** – free private fuel is more likely to lead to an increase in private mileage.

Ask your Account Manager or our Business Intelligence and Consultancy Team to help assess whether your company car drivers using private fuel, are receiving a real benefit and calculate the breakeven point for your current company cars.

Tel: 0117 908 6490 or email us at [enquiries@lombardvehiclesolutions.com](mailto:enquiries@lombardvehiclesolutions.com)

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