High Cost of Fuel Rekindles Reimbursement Debate

By Mike Antich

For most companies, it is less expensive to provide a company vehicle than to administer a driver reimbursement program. Why would a company want to reimburse an employee $600 per month for a vehicle they can operate at $500 per month? However, after attending the annual conference of the National Association of Fleet Administrators (NAFA) last month, I heard that reimbursement is re-emerging as an issue in reaction to the high cost of fuel. While shifting the burden of the company vehicle program to employees may seem, at first, the ideal way to reduce costs, upon closer analysis, it is the most expensive option.

No matter what cost category is examined, a company-provided program is less expensive than driver reimbursement. It is more expensive for employees to use their personal vehicles for business than for a business to offer company vehicles. As a volume vehicle buyer, a company can acquire vehicles at wholesale cost, while employees must pay retail. Second, a company can finance a vehicle at a cheaper cost than an employee. A company also has lower vehicle maintenance costs by participating in a national account program, while an employee typically pays retail. Under reimbursement, high-mileage drivers usually will be upside down at the end of a lease with a balloon payment due for overmileage. When reimbursed drivers lease vehicles in a closed-end personal lease, they are subject to excess mileage charges, which can be prohibitively expensive in high-mileage fleet usage. Also, employees will need to replace their personal vehicles sooner because they quickly accumulate high mileage.

Not many companies reimburse mileage at a rate that fully compensates a driver for the actual cost of operating a vehicle. The cost of fuel, insurance, personal property tax, registration fees, and vehicle maintenance vary substantially. In these cases, the driver ends up with a reduction in pay because he or she now must make up the difference between the reimbursement amount and the actual cost of operating the vehicle. When employees feel the company is not adequately reimbursing them they attempt to maximize reimbursement by exaggerating business mileage.

In addition, a reimbursement allowance is often seen by the employee as part of his or her personal income. There is a temptation to use this money for other household needs and defer vehicle maintenance. There are also tax consequences to reimbursement. If not handled correctly, reimbursement can be considered taxable income by the federal government and some states. Car allowances are taxable to the employee and the company is subject to its portion of FICA tax. Mileage expenses and other reimbursement costs for business use of a personal vehicle are subject to audit by the IRS. Drivers are notorious for not keeping good records, which makes them vulnerable to an IRS audit.

Increased Liability Exposure

Some companies believe that they eliminate insurance exposure with a car allowance. A company may avoid the lesser amount of the damage because the employee's insurance is primary; however, it is still responsible for the liability exceeding the employee's insurance coverage. What is your liability exposure if the employee postpones safety-related repairs on their personal vehicle used for business? A company-provided vehicle allows you to control these variables and minimize this liability exposure. With driver reimbursement, the company is not aware of the vehicle's condition and maintenance. Are the tires in safe driving condition? What about the brakes? Who monitors this?

If a vehicle is not provided by the company, the company must be certain the driver has sufficient insurance to protect it from exposure should there be an accident while the driver is on company time. An employee must carry "business" insurance, which costs twice as much as personal insurance. If the employee is involved in an accident and does not have "business" insurance on the unit, the personal insurance carrier can deny the claim on that person's incurred loss because the carrier was not advised the personal vehicle was being used for business. When liability insurance premiums are paid by the company, there are no surprises on coverage or payment. With driver reimbursement, the driver may not carry adequate liability insurance, which puts the company at increased risk.

Wrong Company Image May Be Projected

A company vehicle is part of your corporate image presented to customers and the community. With driver reimbursement, an employee determines whether a vehicle is appropriate to the type of image the company wants to project. On the other hand, a company-provided program allows you to control the suitability and appearance of the vehicles used for your business. When an employee provides the vehicle, the company surrenders this control. The wrong vehicle can send the wrong message to your customers. The problem that a reimbursement program creates is when someone is hired who already owns a vehicle, the company will most likely have to accept whatever he or she is driving.

These are just a few of a *multitude* of reasons why reimbursement doesn't work. If want more reasons, send me an e-mail and I will forward them to you.

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