How to develop your company vehicle policy

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A company vehicle policy is a guideline given by companies regarding the use of company vehicles. A company vehicle policy establishes which employees are eligible for a company vehicle. It also outlines the requirements for qualifying for a company car, basic rules employees must follow when using company vehicles, and disciplinary action for misusing vehicles.

All business leaders need to decide and put down on paper the policies that guide how all company vehicles are used from ordering to maintenance.

In research done by IPC on perks that employees prefer when joining an employer, 43% mentioned fully expensed company vehicle as one of them. This means that company vehicles are considered an important component of employee compensation. It is essential to have the best company vehicle policy in order to maintain a safe and productive fleet.

There are generally two models of company car benefit:

1. The fully expensed company vehicle model and
2. The total cost to the company model.

Model A: Fully Expensed Company Issued Vehicle

The company will purchase, issue to an employee, and meet all of the vehicle's running and maintenance expenses. The vehicle will be registered in the company's name. This scheme offers an employee the full usage of a car, sometimes with a limitation set down for private mileage. Mileage exceeding the set amount is charged to the employee at set rates (often benchmarked against the Automobile Association rates). According to research by IPC on company vehicle policy trends, the general practice is to dispose off the vehicle to the employee at market value after about five years.

The provision of a company car as part of the benefits package is an expensive item and the company should continue to look at its cost-effectiveness and attractiveness to both the company and its employees.

Step 1: Determine Eligibility and Vehicle Benefits by Employment Level

Eligible Employees

There are two categories of company car benefit eligibility under the fully expensed model:

1. Employees allocated company vehicles because their roles require the use of a car.

2. Employees allocated company vehicles because the majority of roles of this type and level would normally be entitled to a company car in the market.
3.

The type of car and degree of choice in selecting the model is determined by the employee's role/level within the company.

Type of Vehicle: Price Range and Engine Capacity

Here's where things get really fun. What do you want your vehicles to say about your company when your employees pull in to meet a client or when they are on a business trip? Do you want them to say that you are an environmentally friendly company, a high-end service provider or a blue-collar worker? Every vehicle tells a story so it is important to know what you want that story to be and then figure out what vehicle will tell that story. Whether it is what model of vehicle your employees drive or a high-end graphics package, the look of your vehicle can be very important.

According to a 2019 research by IPC on company vehicle polices trends survey most CEO/ MD/ Head of Organisation drives vehicles valued above US$120,000.00 (88%) and of engine capacity above 3000cc (100%), Executives/ Directors drive vehicles valued between US$80,000.00 to US$119,000.00 and of engine capacity between 2500-3000cc (50%), Senior Managers drives vehicles valued between US$45,000.00 to US$79,000.00 (52%) and of engine capacity between 2000 - 2499cc (88%), Middle Managers drive vehicles valued between US$30 000 to US$44 000 (54%) and of engine capacity between 1600 - 1999cc (70%).

Step 2: Administration of the Company Vehicle Policy

Mileage limit - kilometers per Annum

The full cost of running the vehicle is covered for all business mileage and for reasonable private mileage by the company. The general trend is to limit mileage for personal errands by employment level. According to a 2019 research by IPC on company, vehicle polices trends survey most CEO/ MD/ Head of Organisation do not have mileage limit for both business and private mileage (43%), Executives/ Directors have a mileage limit of between 30,001 - 40,000 kilometers per year (100%), Senior Managers have a mileage limit between 20,001 - 30,000 (67%) and Middle Managers has mileage limit between 10,000 - 20,000 (75%).

Fuel Allocation in Litres

Monthly fuel limits are generally based on the employment level. Any excess fuel taken will be charged to the individual employee and will be automatically deducted from the employee’s salary.

Use of vehicles by other people

Most companies limit driving of company vehicles to the employee, authorised/approved driver and spouse. Relatives are not allowed to drive and/or operate. According to a 2019 research by IPC on company vehicle polices trends survey on the use of company vehicle by other people 94% said they allow the spouse to drive and 17% said they allow a biological child to drive only after going through the company driving test.

Tax Implications

The benefit is computed based on the engine capacity of the vehicle provided. The full benefit applies notwithstanding the vehicle may be used partly for the employer's business. This because for the purposes of tax private use includes traveling between home and the workplace or between two distinct businesses or use of the vehicle over the weekends for private purposes. The benefit may be reduced proportionally only for employees who have the right to use the vehicle for less than the year of assessment. Costs of maintenance and other running costs are included as part of the deemed benefit of the employee and do not need to be accounted for separately. However, fuel used for private use must be accounted for separately. There must thus be records kept that document the proportion used for business purposes and the proportion not used for business purposes must be added as a benefit to the employee. Failure to keep adequate records carries the risk that the Commissioner may tax all fuel given to the employee. The company may also write a fuel policy but must seek approval from the Zimra before implementation. The policy must be based on the nature of work in each grade and an excessive fuel allocation especially to senior management may then be viewed as additional remuneration and may be taxed separately from the motor vehicle benefit. The Zimra provides for the value of this motoring benefit through deemed annual costs which are based on the engine capacities of the vehicles as follows:

Engine capacity	**Annual benefit**
1 - 1500cc	ZWL$28,800
1501 - 2000cc	ZWL$34,400
2001 - 3000cc	ZWL$57,600
3001 - and over	ZWL$76,400

Step 3: Vehicle Replacement and Disposal

Vehicle Replacement Period

Every company is going to have a different vehicle replacement strategy. This is because the point in time where it is best to replace a vehicle depends on the type of vehicle, amount and type, and vehicle applications. You must work with a professional to understand your unique cycle. The point of a replacement strategy is to achieve an even, balanced replacement period. The most prevalent trend is to replace the company vehicle after a period of five years (2019 IPC company vehicle polices trends survey).

Disposal

Usually, vehicles are disposed off under the following conditions: disposal when due, accident vehicles (3rd Party Insured) and accident vehicles (Fully insured). A company can also customise their vehicle disposal terms.

According to a 2019 research by IPC on the company, vehicle polices trends survey on disposal of a company vehicle on replacement, below are the different methods:

Disposal Method	Percentage
We auction the vehicle to any employee	*7%*
We sell the vehicle to the employee at book value	*33%*
We sell the vehicle to the employee at market value	*30%*
We use a combination of the book value and market value	*7%*
Other	*22%*

The most prevalent method is to sell the vehicle to the employee at market value after taking three evaluations and calculate the average.

Model B: Total Cost to Company

Under the total cost to the company model, the employee purchases their own vehicle. It is financed through a company-issued or bank obtained loan. It is intended that after about five years, the scheme will cease and a new arrangement will be decided on. The vehicle will be registered in the employee's name at the time of acquisition. The company will pay out an allowance to enable the employee to meet loan and interest repayments as well as the vehicle's running and maintenance costs. It is intended that the vehicle benefit and allowance will be taxed through the payroll.

Step 1: Determine Eligibility and Vehicle Benefits by Employment Level

Vehicle Loan Amount

The amount to be granted to an employee may not exceed the employee's net salary for one month. All permanent employees are eligible for a personal loan after one year of continuous service with the company. Loan repayments shall be deducted from the employee's salary and the repayment period usually does not exceed 5 years.

Vehicle Allowances by Level

A vehicle allowance is a sum of money you add to the employee's monthly salary for the purpose of allowing them to buy a vehicle. The staff member will have to source and buy the vehicle by themselves. They're also responsible for maintaining and insuring the car, as well as monitoring expenses. However, it is worth noting that you can still give mileage allowance in addition to car allowance if you wish.

Step 2: Administration of the Company Vehicle Policy

Reimbursements under the Total Cost Model

When employees use their personal vehicles for business purposes they get reimbursed by the company. According to a 2019 research by IPC on the company vehicle polices trends survey most companies reimburse employees using AA rates (82%) and only 18% said they give a vehicle allowance.

Step 3: Vehicle Replacement, Funding, and Disposal

Vehicle Replacement Period

According to a 2019 research by IPC on the company vehicle polices trends survey, all of the companies that give vehicle loans said soon after the employee has cleared their loan they can get another vehicle loan again.

Conclusion

Your company vehicle policy will only work if your employees actually follow it. Here are a few tips for effectively implementing and reinforcing your new company vehicle policy:

- **Review and update your policy every six months** (or, at a minimum, annually)
- **Ensure that all primary and secondary drivers accept the terms and conditions**
- **Continuously reinforce company vehicle policies and procedures**. Find different ways to communicate your policies with your drivers beyond just sending out a legal document. Here are some examples:

- **Design a quick reference guide**
- **Send out email tips**
- **Record a video** of a manager in your company speaking about the value of your fleet program, or giving a reminder on specific company vehicle policies. Email this video to all employees.
- **Send targeted messages** to particular employees who are not complying with policies.

When developing your company vehicle policy it is also very important to do a market survey to find out what other organisations are doing so that you align to best practices.

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