CORPORATE FLEET LEASING VS. REIMBURSEMENT 101:
WEIGHING THE OPTIONS

When analyzing a leasing versus reimbursement fleet management strategy, many variables need to be evaluated in order to make the best decision for both the driver and the organization. In the following paper, LeasePlan has compiled a summary of the key points to consider when making an educated selection between the two distinct strategies.

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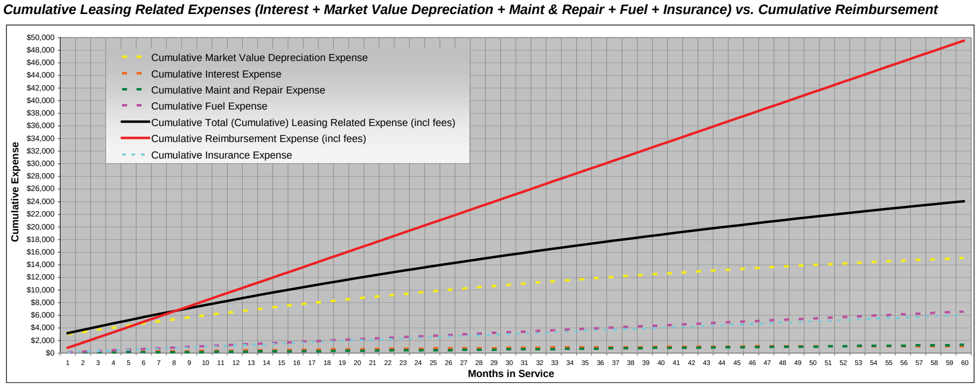
ECONOMIC/FINANCIAL (COMPANY)

When analyzing the economic impact of utilizing a company supplied or reimbursement fleet management strategy, many variables need to be considered. Major leasing-related expenses derived from interest, depreciation, vehicle maintenance and repairs, fuel, insurance and fees all need to be compared to the (fixed and/or variable) reimbursement amount over a selected duration to see which solution is the more economical alternative.
The economics of comparing a company-supplied strategy to a reimbursement strategy are dependent upon many variables. Vehicle selection for a company-supplied strategy is a key variable since it impacts the capitalized cost, fuel expense, estimated market value depreciation and maintenance and repair expense. Other important variables include the financing terms, annual mileage driven, insurance cost and current fuel prices. On the reimbursement side, the main variables are the reimbursement structure (fixed, variable, or a combination of fixed and variable) and the specific reimbursement amounts tied to the chosen structure.

Once all variables are determined, there are many ways to model the financial comparison between the two strategies. An example showing the comparison of all leasing-related expenses versus the expenses for a fixed and variable reimbursement strategy for a hypothetical vehicle is shown below. Assuming typical "fleet centric" assumptions for financing and operating parameters, and realistic reimbursement parameters, the cumulative expense incurred by the employer related to reimbursement normally exceeds the cumulative expense related to leasing very early in the vehicle's duration and widens over time.

FAVR Reimbursement Breakeven Analysis - Domestic Midsize Sedan
Cumulative Leasing Related Expenses (Interest + Market Value Depreciation + Maint & Repair + Fuel + Insurance) vs. Cumulative Reimbursement



ECONOMIC/FINANCIAL (DRIVER)

Fleet drivers drive an average of 32,000-plus kilometres per year, while personal leases are typically established at 20,000 to 24,000 kilometres per year. If employees exceed the contractual mileage established on their personal lease, at maturity they could be responsible for the payment of substantial over mileage charges. In addition, corporations have the advantages of manufacturer incentives and rebates, volume pricing and other pricing benefits resulting from the pricing expertise and manufacturer relationship of their leasing company. These pricing benefits result in a lower transaction price per unit (in addition to lower financing costs). In most cases, an individual is also required to place a down payment on the vehicle, resulting in a large out-of-pocket expense at the inception of the personal loan or lease. An example of these variances is shown below.

	Employer	Employee	Difference
Factory Base Invoice	($20,800)	($20,800)	$0
Adjustments	$100	$0	($100)
Manufacturer Allowance	$1,200	$300	$900
Dealer Markup	$0	($500)	$500
Advertising	$0	($200)	$200
Sales Tax (6%)	$0	($1,272)	$1,272
Licence & Title	($200)	($200)	$0
Vehicle Net Transaction Price	($19,700)	($22,672)	$2,972
Down Payment	$0	($2,267	$2,267

HUMAN RESOURCES

A company-provided vehicle can be used as a recruiting tool.
A common misconception is that employees prefer a reimbursement program because they have the freedom to choose their vehicle. In reality, company- supplied vehicles give a company a hiring advantage. Past industry surveys show that potential employees perceive a company vehicle as a valuable benefit, like healthcare coverage or profit sharing.

Reimbursement can be a hiring disadvantage. It may be more difficult for a company utilizing reimbursement to successfully hire an individual that has a company-supplied vehicle with their current employer. This is attributed to the fact that a new hire would be forced to acquire a replacement vehicle, which may result in a substantial capital outlay in the form of a down payment.

Employee turnover tends to increase when switching from company-supplied to a reimbursement program.
According to Fleet Financials (Sept./Oct. 2006) magazine, fleet management companies have found that when a company replaces the company-provided vehicle with a reimbursement program, the result is approximately a 10 percent near term turnover rate.

MAINTENANCE AND REPAIR COSTS

Maintenance and repair costs can be significantly lower for companies.
Due to greater purchasing power available to fleet operators in conjunction with network partners, maintenance costs are lower for a company than for an individual. Leasing companies benefit from relationships with network partners, allowing for discounts that are passed on to the client through maintenance programs in which the client is charged less than the retail price

for maintenance, repairs, tires and labour. Maintenance and repair charges are also managed by the leasing company to ensure that drivers are charged a fair price for the products and services.

EXPENSE REPORTING

Employees may tend to exaggerate their business mileage in a driver reimbursement program.

When using a variable or fixed and variable (FAVR) reimbursement program, employees may attempt to increase their financial gain by overstating their mileage. According to Fleet Financials (Sept./Oct. 2006) magazine, one fleet management company conducted a study with its lessees and found that when switching from reimbursement to a company-provided vehicle, the reported business mileage decreased by 30 percent as a result of the capture of actual fuel card or maintenance sourced mileage data.

COMPANY PERCEPTION

Company supplied vehicles allow greater control over a company's image.

The condition and type of vehicle used for business is a reflection on the entire organization and therefore needs to project the proper image. With a reimbursement program, a driver may select a vehicle that is not appropriate for the business and/or may not keep the vehicle in satisfactory condition. A company-provided vehicle will ensure that your company's image is protected.

INSURANCE

Auto insurance can be inadequate and more expensive with an employee-provided vehicle.

Under a reimbursement program, the company is responsible for making sure the employee has sufficient insurance to protect the employer from exposure to any vicarious liability claims. It is not only difficult for a company to monitor driver compliance and maintain proper documentation, but increased insurance limits, as dictated by the company, will result in a higher premium to the employee.

DRIVER SAFETY

Reimbursement offers less control over employee driver safety.

When vehicle parameters are not established by the company, some employees may opt to purchase a less expensive vehicle in order to pocket the difference from their reimbursement program. The less expensive vehicle may also be lacking in safety, which puts the employee, and possibly the company, at risk. A company-provided vehicle will normally be equipped with the latest safety features, while an older, employee-provided vehicle may not.

Under a reimbursement program, driver abstract checks should be performed to avoid having an employee driving on company time without a valid driver's licence or under major violations charges. While it is still recommended to establish policies surrounding the use of personal vehicles while conducting company business, to minimize potential liability issues, enforcing employee compliance may be difficult. With a company-provided vehicle, an organization can easily establish restrictions on employees and authorized drivers, such as spouses, children, etc.

TAX IMPLICATIONS

There are tax consequences associated with driver reimbursement programs.

If the company reimburses an employee based on a per-kilometre rate that the CRA considers reasonable, this amount is not considered to be taxable income for the employee. Reasonable per-kilometre rates are prescribed in Section 7306 of the Income Tax Act.

If the company pays a per-kilometre amount that is not reasonable, or pays a flat-rate allowance, or pays a combination of flat-rate allowance and reasonable per-kilometre rates than these amounts are considered to be a taxable benefit to the employee and need to be included in the employee's income.

The CRA guidelines surrounding reimbursement are complex and subject to change. Please consult your company's tax experts when reviewing leasing versus reimbursement options.

ENVIRONMENTAL FOOTPRINT

Driver reimbursement is counter-productive to "green" initiatives.

Companies that provide vehicles through professional fleet management assist in realizing environmental goals by operating well-maintained, fuel-efficient vehicles. The newer model company-provided vehicles in service contribute to lower carbon emissions and energy conservation, while employee-provided vehicles are typically not as well maintained, older and less fuel-efficient.

Company-supplied vehicles play a part in reducing emissions and fuel conservation because they routinely restrict the grade of gasoline used. For example, many fleets have policies or use a fuel card that restricts buying premium-grade fuel. Many drivers mistakenly believe that their vehicle requires premium fuel, when in reality most domestic vehicles are designed to operate at their optimum level using regular unleaded gasoline. The resulting fallout is a wider carbon footprint since the use of premium-grade fuel actually contributes 30 percent more carbon emissions than regular unleaded gasoline, according to Fleet Financials (Sept./Oct. 2006).

FOR MORE INFORMATION

For more information about the different aspects of a leasing versus reimbursement fleet strategy, please contact a LeasePlan Canada sales representative at 855-588-3677.

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