Mileage Rate and Company Car Reimbursement Alternatives

Many companies struggle with best plans for a fair, accurate, reliable, and comprehensive plan that identifies the entire costs specific to each driver for employee owned vehicles.

- **Common issues:**
  - We have a company owned or lease plan, and the expenses are difficult to manage. We would like to be out of the asset management business
  - Vehicle Reimbursement, travel, and fleet expense are big, and often a number two expense for the company, how can we align that with more reliable plan?
  - Mileage rates from the government are expensive and our spend is far over the real cost of a proper reimbursement
  - We have different roles for the employees that work on the plan; can we have a plan that effectively creates plans for different roles?
  - There are different geographical costs for employees, how do we figure out additional expenses, and what cities have more expense?
  - When we combine the role models with different geographic expense, putting together a plan is very confusing, is there a plan to combine the expense accurately?
  - Can we have a plan that is accurate, monitors expense, audit, and control year after year?
  - Risk is top of mind with our employees on the road, is there a way to monitor and reduce risk and tie that to the reimbursement plan?
  - Can we unify a risk policy with the program?
  - We have low and high mileage drivers all over the country, how do we figure out additional expenses, and what cities have more expense?
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- **In this comparison we compare the following methods:**
  - Flat reimbursements (Always taxable)
  - Federal Rate of Cents Per Mile
  - FAVR plans – Fixed and Variable Rate (Best in class method)
  - Modified FAVR Accountable Plan

### Mileage Rate and Company Car Reimbursement Alternatives

**Flat Taxable Reimbursement**

In this approach, the company determines a flat monthly taxable reimbursement amount and pays the same rate for all drivers in all locations.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Issues</th>
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</thead>
<tbody>
<tr>
<td>Low implementation complexity and cost</td>
<td>Does not establish appropriate guidelines for image, reliability, liability and safety</td>
</tr>
<tr>
<td>Simple to use</td>
<td>Always taxable, and FICA as well as income tax deductions become an employee concern</td>
</tr>
<tr>
<td>Predictable cash flow for company</td>
<td>While easy to use, the tax waste from FICA alone usually pays for a professional managed plan where savings can be identified</td>
</tr>
<tr>
<td>Allows employee driver freedom to choose</td>
<td>Proper policy enforcement will require additional company administrative resources</td>
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<tr>
<td>vehicles and options</td>
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**IRS Rate (cents per mile plan) payment plan**

In this approach, the company reimburses for vehicle use on the “Safe Harbor” IRS federal rate. The federal rate changes each year, and is based on the cost prevailing from the previous year. That being said it is not an accurate benchmark for current cost. For example, while fuel prices have become lower and stabilized recently, when fuel prices change, it is not addressed by the IRS rate until next year.

<table>
<thead>
<tr>
<th>Problems</th>
<th>Issues</th>
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<tbody>
<tr>
<td>Does not provide a best practice for policy</td>
<td>Does not establish appropriate guidelines for image, reliability, liability and safety</td>
</tr>
<tr>
<td>Over reimburses high mileage drivers, and under reimburses low mileage drivers and difficult to deliver role based segments</td>
<td>Inequitable - High mileage drivers enjoy over reimbursements at the company expense Low mileage drivers feel unsupported in providing a required company vehicle Different roles not easy to define, should executives, managers, service, and sales all get the same rate?</td>
</tr>
<tr>
<td>Very unpredictable cash flow for company</td>
<td>What is the right rate? How do we provide a plan where the outcome is predictable year after year?</td>
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<tr>
<td>No software or reporting program with reports for audit and control; Accurate mileage submissions and business use documentation must be monitored to avoid inflated reporting “Driving for extra income”</td>
<td>Mileage apps provide some support, but at the end of the day, they just support the IRS rate, and do not provide audit, compliance and control for your plan, or custom rates for different employee roles</td>
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**Fixed and variable rate (IRS approved non taxed FAVR plan) (Best in Class Method):**

In this method **actual costs** are identified and provide an accurate plan for all driver segments and roles. Using IRS approved methods, drivers are reimbursed based on location costs sensitive to location, base vehicle and regularly updated expense to the plan; the rate is based on IRS benchmark expense for the base vehicle plan model (Not what they drive). Drivers are reimbursed on a benchmark to their actual program plan, eliminating guess work on what a driver should be reimbursed for. This method works like many other HR plans with individual rates.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Opportunity FAVR</th>
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</thead>
<tbody>
<tr>
<td>Business-use sensitive; employees reimbursed on actual business miles driven</td>
<td>Identify real cost based on mileage bands, actual business use and business miles</td>
</tr>
<tr>
<td>IRS qualified FAVR non-taxable plan</td>
<td>Provides a best practice for cost containment, audit and control Eliminates tax waste, provides a cost effective plan</td>
</tr>
<tr>
<td>Comprehensive for geographical cost differences</td>
<td>Adjust to actual geographical costs in a fixed and variable plan based on a data base for costs</td>
</tr>
<tr>
<td>Options</td>
<td>IRS rules provide options to adjust plans for extra maintenance or fuel usage for driver conditions</td>
</tr>
<tr>
<td>Provide control in plans that you select; Much like other HR benefits, opportunity to select different plans for different employee roles - Best in class method that also adjust to geographic costs</td>
<td>Employee must maintain and provide a compliant vehicle (age and value) as well as insurance in the custom plan assigned to the employee’s plan</td>
</tr>
<tr>
<td>Limits risk and liability exposure to business days and usage</td>
<td>Insurance provided by driver limits risk to the company as a first defense</td>
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The Accountable Plan Rules approach

This is a modified version of a Fixed and Variable plan. Like a FAVR plan, expert help and a FAVR data base for rates is required. Key highlights are as follows:

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Considerations</th>
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<tbody>
<tr>
<td>Business-use sensitive; employees reimbursed on actual miles driven</td>
<td>Using FAVR approach with qualified provider of data, IRS allows some modification of the plan</td>
</tr>
<tr>
<td><strong>Non-taxable or partially taxable</strong> if conditions are met. A FAVR professional can help</td>
<td>Allows for Executives and control employees to participate</td>
</tr>
<tr>
<td>Fair and equitable for drivers <strong>that do not qualify for a FAVR plan.</strong> While a qualified vendor is required to create and monitor the plan, savings and ROI will be easily identified</td>
<td>Drivers have properly structured set of fixed and variable rates based on location, territory, driving conditions, annual business mileage and assigned base vehicle. Role based rates allowed</td>
</tr>
<tr>
<td>Highly predictable cash flow for company and employee, with cost variability based on business use</td>
<td>Reimbursements are based on predicted Fixed and Variable rates are customised to every driver</td>
</tr>
<tr>
<td>Use company policy and control the vehicle selection, increasing compliance with appropriate guidelines for image, reliability, liability and safety</td>
<td>Company policy can be used to establish age and cost guidelines outside FAVR rules. IRS requires that a FAVR data base is in place to establish this plan</td>
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Ask the right questions for move to a FAVR plan for employee owned plans

When contemplating an employee reimbursement program, there are several key questions to ask:

**How much control does my company need over employees’ vehicle selection?**

With a professionally managed FAVR reimbursement program, you have control over the age and value of the vehicle an employee drives, and the tools to identify exceptions are available. In a fixed “flat” allowance or cents per mile reimbursement approach, drivers are not required to adhere to program parameters and standards, and exceptions to the policy cannot be identified.

**How important is our company image, and how well will this image supported?**

Since you have better control over what vehicles employees drive with a properly managed plan, vehicles will be appropriate on the basis of make and model year – all of which work to support the desired company image.

**What will be the impact of fleet costs?**

Typical savings from fleet to a FAVR program can range from 15-20% more importantly; key employee administration is dramatically reduced to 5-10% per month

**Will employee productivity be impacted?**

Employees participating in a reimbursement program will likely spend both company and personal hours to perform vehicle-related activities, including vehicle purchasing; however, that time is about equal to time spent ordering a company vehicle

**How will employee morale, retention be affected?**

Most often employees enjoy having a vehicle that works for their personal needs, rather than the standard fleet offer. Considerations include owning and enjoying a vehicle that addresses personal needs while meeting company policy. Hiking, hunting, family size, and other personal considerations often mean the company car is no longer a benefit. If you combine that with a personal use charge back, most often we find that the employee is dissatisfied with the fleet plan. Most often in driver meetings, we find that drivers are enthusiastic about a plan that allows them more flexibility. **Millennials** in particular prefer more flexibility with an **employee owned** vehicle.

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Does reimbursement diminish my liability in the event of an accident?
On a FAVR plan, most often, risk is limited to the work day, with employee provided insurance as the first defense. Consult the legal department for specific liability responsibility for the fleet, in most cases reimbursement limits risk to the work day. With Fleet, your company is exposed 24/7.

The bottom line
In deciding on how best to meet your company's transportation needs, consider all the facts.

Company considerations
A FAVR Allowance and reimbursement program will reduce your direct costs of vehicle operation and simplify the budgeting for usual fleet expenses, and introduce controls over what vehicles employees choose or how employees spend their reimbursement allocation and insure the vehicle. Administration of a non-taxable FAVR Plan program can be easy and effective with proper management. Simply said, move from asset management to financial management.

Employee considerations
A FAVR Allowance and reimbursement offers employees the freedom to choose their own vehicle and have that vehicle available at all times for personal use. A properly developed geographically sensitive program can avoid a financial burden on employees as far as maintenance, insurance, vehicle payments and used vehicle options. Proper controls, data base (for individual custom rates), and superior management software should be a consideration.

Making the decision for a best plan
1. How do we define a better employee travel policy?
2. Is Company owned or leased vehicles a best plan?
3. Is our reimbursement plan IRS compliant?
4. Is our plan geographically sensitive to local cost?

About AutoReimbursement.com:
At AutoReimbursement.com we create innovative company auto expense management programs around IRS programs for non-taxable FAVR programs. The impact of the plan is significant to most companies with reductions on risk, cost (Tax waste) and audit control with the first 100% Mobile Cloud Software for FAVR plans.

1. Our reimbursement methods look to real cost or TCO (Total Cost of Ownership) for reimbursements in FAVR plans.
2. We create individual role based employee plans based on our extensive data base with 4.3 million combinations in our Real Cost data base:
   a. Role based reimbursement identifies managers, sales, service, and other roles custom to your company and advice on how to structure the plan for each role
   b. Then, from there, we provide geographic expense models (For Example rates in Des Moines are much different from New York)
3. Accurate, Responsive, and Comprehensive - our Real Cost data bases create a best method for benchmarking programs along with real time updates to employees that expect regular updates to their plan.
4. We enjoy being the first 100% mobile company in the industry; Drivers and Administrators can update or view their plan updates from any device

About the author:
Jim Doherty has developed FAVR plans with many highly visible companies large and small, and has routinely documented significant program savings, heightened driver acceptance and satisfaction, and reduced fleet liability with greater control and administrative efficiency.

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