DATA SHEET

Flat Taxable Car Allowance

Utilizing compensation as a business tool is your costing you organization.

Car allowances were originally created as a way to deliver compensation in disguise, while creating an avenue for negotiation.

Today, many organizations still provide employees with a taxable car allowance as an easy way to reimburse them for their vehicles. However, as more employees are asked to use a personal vehicle for business, car allowances have not changed much.

The Rise of Mobile Employees

Over the past 20 years, we have become a mobile society, and our employees have followed suit. Today, mobile employees can be found in almost any field, particularly in sales, marketing, and even management. And their business needs differ from those who work from a single location, such as an office. While some employers provide their mobile workers with a company car to get them from point A to point B, a substantial number of organizations instead provide mobile employees with an car allowance to offset costs.

AT A GLANCE

Most organizations are unaware of the impact that an car allowance can have on their organization. Finding the appropriate balance between sufficient compensation and cost management can be difficult.

If an car allowance does not protect employees' income from the high costs of operating their personal vehicles, it can lead to a reduction in productivity, high turnover rates, and overall job dissatisfaction.

If the company provides too large of an car allowance it could negatively impact their bottom line.

mBurse uses a data- driven approach to enable organizations to evaluate and improve their reimbursement policies.

Contact mBurse for your free car allowance benchmarking report.

The Problems with Car Allowances

Car allowances are often uniform: a set amount for everyone, or a set "per mile" reimbursement formula. This "one-size-fits-all" methodology presents four challenges:

1. **Different employees operate in territories of different sizes**
2. **Each employee's expenses will be unique, even on a "per mile" basis, based on such factors as gas prices, insurance costs, and gas mileage.**
3. **The car allowance is taxed as compensation**
4. **The car allowance amount is not based on data**

Car allowance policies are generally created because organizations see them as easy to understand and easy to administer. Unfortunately, many of these policies have not been reevaluated for a number of years. Providing employees with a flat car allowance makes things "equal" but not equitable. This can in turn lead to problems down the road.

How Are Car Allowances Important?

The business world changes rapidly, and your organization needs to keep up with those changes. The rise of mobile employees has made car allowances more essential than ever. But making sure you generate equitable allowances can be a challenge. And it doesn't help that they tend to be ranked fairly low in terms of priorities. As a result, problems often go unaddressed.

However, car allowance policies hold significant importance, impacting your organization on many levels, from risk mitigation to productivity to employee morale and more, including:

Human Resources

A professional car allowance can help with talent attraction and retention.

Finance

Managing costs and eliminating unnecessary tax waste.

Sales

Top line growth and promoting sales activities that support it.

Employees

Ensuring accurate and fair reimbursements for everyone who needs them.

What Happens if Your Car Allowance Policy Is Lacking?

If your car allowance policy goes years without being updated, it likely won't maintain its effectiveness. In an effort to manage their costs, employees may take measures that don't align with corporate objectives. For example, if an car allowance doesn't adequately cover travel costs, employees may take short cuts to mitigate those costs on their own. This may lead them to reduce face-to-face meetings in favor of phone calls, webinars, and other less effective sales methods. As a result, their productivity decreases and sales drop—causing the company to lose more money than it would have paid through a more equitable car allowance.

Furthermore, if any of your mobile employees operate in California, inadequate car allowance policies violate the law. California Labor Code 2802(a) was designed to prevent employers from passing their operating expenses to their employees. If an employer requires an employee to travel on company business, the employer must reimburse the employee for the cost of that travel. Violations of this code come with severe financial penalties

Modernizing your car allowance policy will help you avoid these problems. Taking proactive steps to create a fair and equitable policy will improve employee productivity, while avoiding unnecessary tax waste, mitigating risk, and eliminating unnecessary payroll waste. In the end, it will help you grow your top line and reduce your bottom line.

What more reason do you need?

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