

Mileage Reimbursement Considerations (as shown in *Automotive Fleet* magazine)

1. Inadequate insurance may be carried by reimbursed employee.

If a vehicle is not provided by the company, then the company must be certain that the driver has sufficient insurance to protect it from the exposure should there be an accident while the driver is on company time. An employee needs to carry “business” insurance, which costs twice as much as personal insurance. The reason for that is if the employee is involved in an accident and does not have “business” insurance on the unit, the carrier for the personal insurance can deny the claim on that person’s incurred loss because he had not advised the carrier he was using his personal vehicle 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.

2. Added tax burden for drivers and the potential of an IRS audit.

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. In addition, reimbursed employees may be subject to possible IRS audit. Mileage expense is auditable.

3. Employee gets a “pay cut” with inadequate reimbursement.

Cost of gas (especially today), insurance, personal property tax, registration fees, and maintenance of vehicles vary substantially. There are not many companies that reimburse mileage at a rate that fully compensates a driver for the actual cost of operating a vehicle. The driver ends up with a reduction in pay because he or she now has to make up the difference between the reimbursement amount and the actual cost of operating the vehicle.

4. Unable to monitor condition/safety of employee vehicles.

With an employee-provided vehicle, how do you ensure it is properly maintained? 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?

5. Reimbursement offers less control of employee safety.

Under reimbursement, an employee can utilize a less safe vehicle which exposes the driver and the company to a higher risk of serious injury in the case of an accident. If employees are providing their own vehicle, they may not have the most up-to-date safety-features, like side-impact airbags (or even passenger-side air-bags on an older vehicle), anti-lock brakes, or daytime running lights.

6. Reimbursement has a negative affect on driver morale.

A company provided vehicle helps create high employee morale. Drivers don't have to worry about getting insurance, paying for unexpected major repairs, and routine maintenance.

7. Wrong company image may be projected.

A company vehicle is part of your corporate image presented to the world. 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.

8. Employees still need to comply with company policy.

Under a reimbursement program, a company still needs to set up policies and guidelines regarding the use of their personal vehicle to conduct company business. Administratively this is burdensome and difficult to monitor.