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THE CAR AND TRUCK FLEET AND LEASING MANAGEMENT MAGAZINE

Driver Reimbursement Perks and Pitfall

May 2017, By Andy Lundin

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Does your fleet operate under a corporate fleet leasing model or do you utilize reimbursement methods that allow your drivers to drive their own vehicles during business hours?

Depending on the fleet this question is directed to, the answer might be different, due to a number of factors that support the fleet's operational needs.

Larger fleets with vehicles that drive a lot of miles, for example, may tend to lean more toward the corporate fleet leasing model since this allows them to leverage their size and economy of scale.

However, other fleets may want to consider the benefits that a reimbursement model may offer them.

And, other fleets may want to go beyond simply choosing one option, and consider utilizing the two within their operations.

Reasons to Reimburse

One of the main reasons a fleet might turn to the reimbursement method over a corporate fleet leasing program is due to mileage matching. This would be a key focus for fleets that have lot of “low-mileage” drivers.

“There may be certain drivers, either based on role or based on annual mileage, where reimbursement would make sense because they’re not getting enough business miles to warrant having a company car,” said Bill Blais, director, strategic consulting, Element Fleet Management.

Brad Jacobs, director of strategic consulting, Merchants Fleet Management, said that vehicles being driven under 5,000 business miles annually should be considered to be implemented into a reimbursement model.

“The economics of using leased vehicles or a company car for that type of situation is nearly always under headwind,” said Jacobs. “You’re going to reimburse the driver a certain dollar amount based on the rate of the policy utilized.”

Kip Fournier, Director of Reimbursement Solutions, Wheels Inc., said that when vehicles average between 8,000 and 13,000 miles, the cost of choosing leasing or reimbursement depends on the program vehicle.

“So if you have a Fusion, it may be 9,000 miles. If you have a Ford Explorer, it may be 13,000 miles, meaning if you drive less than this amount, it’s costing the company more as a leased vehicle,” he said.

Reimbursement follows four different types of methods: IRS business mileage reimbursement rate, a fixed rate or allowance, the fixed and variable rate (FAVR), which is combination of the two previous rate methodologies, and a hybrid model which doesn’t pay a fixed amount but calculates all driver payment down to a cents-per-mile rate. However, it is crucial to have a good understanding of your fleets operational functions prior to choosing a reimbursement method, or if you are considering adding one of the methods to work along your fleet leasing program.

“Until we know what your actual needs are, and what your fleet needs are, and what your driver’s needs are, we really can’t make that recommendation. But what we know is there are valid reasons for people with leased vehicles to look at reimbursement,” said Fournier of Wheels.

Sidebar: Types of Driver Reimbursement

Assessing these needs of the fleet can be best brought to a focus when the company culture is carefully considered. For example, in the aforementioned example of low mileage drivers, already knowing that the company has a certain amount of drivers that drive below the recommended mileage threshold can help the fleet establish that it may in fact be suited to include the reimbursement model.

There are several other elements to a reimbursement model that can healthily operate in tandem with a fleet leasing program.

Another reason fleets consider a reimbursement method as an option are the benefits of its employees, or even prospective employees.

“Even if they’re reimbursing their drivers, there’s that perception of the company car that there’s some prestige that comes along with that,” said Blais.

In addition to this, Fournier mentioned several other reasons why fleets consider their drivers when they look to reimbursement methods.

- It offers drivers to choose their vehicles. For instance, a higher paid driver may prefer that they driver a higher end vehicle.
- It eliminates exception vehicles. This includes vehicles that drivers may find do not suit their personal interests.
- It adds a flexible short term solution. For example, if a vehicle is damaged and the fleet requests the driver to utilize a personal vehicle.
- It can be used as a solution in the event of company change. For example, a company that operates on a leasing method purchases a fleet that operates with the reimbursement model.

The Downsides

However, if your fleet has considered going the route of reimbursement, there are also concerns that should be noted. One of which is upholding the aforementioned company culture.

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“So part of if you decide that you wanted to offer choice, the next thing is culturally, what do you want to do? What impact will it have in the organization? And then how do you want to control that,” said Fournier.

Consider the option that allows drivers choosing their vehicles. Does the vehicle in question that they are driving reflect the company image?

Delving deeper into reimbursement also creates the issues of drivers that might consider reimbursement part of their income as opposed to finances that should be directed toward vehicle purchasing or maintenance.

“With reimbursement, one of the downsides is you lose that control,” said Blais of Element. “You can have a driver who is viewing the reimbursement program as a kind of a monthly stipend.”

This lack of control that fleets might have in a reimbursement program may flow into other aspects of fleet, which could be problematic. For example, without having total control of the vehicle, how will the fleet know if they are monitoring safety recalls, conducting regular preventative maintenance procedures, etc.

It’s also important that the fleet not forget that MVRs are just as important to pull for drivers on reimbursement as they are on a corporate fleet leasing program.

“MVRs are typically checked at the beginning of hire as part of the HR process. Often times we see a lack of follow up driven by organizational focus on other areas of the business,” said Jacobs.

Another reason why having visibility of a driver on a reimbursement model is necessary is in regards to how your drivers are tracking miles. False mileage reporting from drivers is one such issue. Indeed, the way the driver is reporting his or her miles can negatively affect the bottom line.

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In the case of FAVR reimbursement, some fleets might end up overpaying their drivers.

“If a driver does not drive the 10,000 miles you thought they were going to drive and they drove less than that, it means you’ve overpaid the driver and you either need to A, collect the money back, which they never do, or B, tax it as income, which they always do,” said Fournier of Wheels Inc.

The miles that the driver does not report in this instance would become income from the standpoint of the IRS, which means the fleet has to tax it as income.

“By getting the tax, it maintains the tax-qualified status on the rest of the income that you’ve paid them. So it’s tax-qualified, which means the employee does not pay taxes on it, but you’ve already overpaid them, which is never the goal of either fleet program. If a company utilized a cents-per-mile model, they will never overpay due to low mileage. That is why we believe this is the best methodology for reimbursement, cents-per-mile” Fournier added.

Other Major Considerations

Driver safety concerns are very much still something that fleets should consider when contemplating reimbursement implementation.

Recalling the aforementioned issues related to vehicle choice, Jacobs of Merchants said some drivers might consider procuring a vehicle that is equal to what he or she will be reimbursed. However, more often than not, it will be worth less. What this could potentially mean is the driver sacrificing the safety features that are available on newer model vehicles.

“Many newer vehicles are coming with these types of safety features, but there’s no guarantee that those safety features are going to be incorporated into a fleet under reimbursement since the company has little control over what those drivers are actually driving,” he said.

And this idea carries over into concepts related to liability. For example, if a reimbursed fleet vehicle that lacks the latest safety tech gets into an accident, the driver of the other vehicle could make the claim that that fleet should have ensured that all of its vehicles have the safety tech, including the reimbursed vehicle.

“You could say that as an organization, if I’m going to reimburse you, you have to have these options on your vehicle. But that also needs to be enforced,” said Jacobs.

But liability goes beyond simply not having the right safety features. How drivers are ensured is also terribly important. Indeed, certain states require fleets have a business license, but the fleet may never have bothered to do more research about its drivers regarding this.

“You have to remember are you then relying on drivers to make sure they have the right level of insurance coverage. So typically if they’re driving a vehicle for business and personal reasons as well, they need to have business level coverage and drivers don’t always go that route,” said Blais.

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