

associated cost (repairs, insurance, etc.) are included.

#### *The extent of use*

Valuation of the benefit derived from the private use of company car also depends on the extent to which the provision is used during the period concerned. In principle, this extent of use is determined by (i) the *duration of use* during the reference period, and (ii) the *intensity of use* during that period.

#### *Duration of use*

This is easily measured in terms of the number of months during the reference year for which the company car was available for private use. This information may not be required in the following two situations:

1. When the current income concept (rather than the concept of income during the reference year) is used, information on the private use of a company car is also obtained on a current basis, and its value is annualised in the same way as other income components.
2. When the "direct method" (method A described above) is used, it records the total amount of benefit for which the recipient is assessed for tax purposes during the reference period. That itself is the target variable, and hence no further information is required on the duration (or intensity) of private use<sup>61</sup>.

In all other cases, the models described in the preceding section give the "utility per unit of time (year)", which has to be multiplied by the duration of use to obtain the amount of benefit actually received during the income reference period.

#### *Intensity of use*

It may appear that the abovementioned calculation should also take into account the intensity of private use during the period that the vehicle is available for the purpose. The intensity may for instance be measured by the proportion of private use out of the total use of the company car, and/or mileage of private use.

However, even without reference to practical difficulties in obtaining such information in a survey, it can be argued *that it is not necessary or logical to introduce this factor*. The percentage of private use out of total use may, for instance, be determined mainly by the extent to which the employee is required to use the vehicle for work-related purposes, rather than by the extent of private use. Similarly, the mileage of private use may be determined largely by the person's private needs and preferences: restriction on the form or extent of private use is not common for company vehicles provided for the purpose of work. Therefore, it cannot be assumed that the level of private use of a company car – whatever that level is in the particular circumstances of the person concerned – generally differs in any systematic way from what it would be with a person's own car. The amount of benefit is the money saved from not using one's own car for the purpose<sup>62</sup>.

#### *Conclusions*

- It is not possible to have a single approach in all countries.
- Although a method based on the assessment for tax purposes implies relaxing the earlier-stated intention that the approach should not depend on particularities of the national taxation systems, this approach is essentially the one applicable in situations where the information is obtained from registers, or where a regular allowance rather than an actual car is provided; and the approach is well-established in some other countries.

<sup>61</sup> The intention is not to exclude fuel if it is provided free for the PRIVATE use of a company car – certainly not in principle or as a matter of definition. But in practice, probably this provision is not common or at least not significant. In view of the need for simplicity ("Recommendation 1" above), we have indicated that it may be left out. In any case, component (ii) is to be estimated from external data (normally as a function of physical characteristics of the car), and hence if in a country free fuel is a significant part, then an average allowance may include it in the estimation of that component.

<sup>62</sup> The case is not all that dissimilar from the common case of personal computers. The cost of a PC and the rate of its depreciation – and hence in our hedonistic world its "value" to the individual – is the same regardless of whether the person uses it for intensive SAS computations all hours of the day or merely for video games at the weekend.