The impact of a company car and its taxation on travel behavior and safety: The Israeli case

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Abstract
Employer provided cars are very common in the developed world. In Israel there is a massive growth in the use of employer provided cars (either company cars or as more common in Israel, leased cars). They comprise approximately 37% of the new vehicle fleet (up to 4 years) compared to their share in all the vehicle fleet which is approximately 13% (similar to the average in Europe).

The extent of this phenomenon is obviously influenced by government policy in regard to employer provided cars. An employer provided car is a significant fringe benefit in employee's compensation and is added to the gross taxable income. This benefit, the value of personal use which is the only taxable portion of the car use, should reflect the personal use of the employer provided car and is determined by the government. Clearly, the relatively low value of personal use which was common in Israel encouraged the usage of employer provided cars. The tax reform implemented for employer provided car on January 1st, 2008, is set to almost double the value of personal use; this increase is performed gradually over four years.

This paper is based on a research, still in progress, which aims to explore the impact of employer provided car and its taxation on travel behavior and safety in Israel. This impact has never been investigated explicitly in Israel and becomes more timely and valid in light of the new tax reform. Experience from other countries provides reasons to assert that employer provided car affects travel behavior and road safety. In the UK, for example, where company cars seem to be more used than anywhere else in the world, users of company car drive significantly more miles and are involved in about 50% more accidents than other drivers.

In order to evaluate the travel behavior and safety implications of employer provided cars in Israel the following hypothesis are analyzed and examined:

- Users of employer provided cars have different travel behavior characteristics than users who purchase and maintain a private car. Employer provided car gives incentives to and strengthens passenger car use. Therefore, there is growth in the number of trips taken and in vehicle kilometer travelled. Furthermore, it affects travel patterns of the entire household.
- Employer provided car leads to a significant change in one's driving behavior. This can result in more aggressive and dangerous driving style.
- The safety characteristics of employer provided cars are relatively poor compared to those demanded and purchased by private owners.
- The level of maintenance (which is the employer responsibility) might be lower in order to reduce employer's cost.
- The elasticity of demand for employer provided car with respect to the value of personal use is significant. Employees' willing to be involved in an employer provided car arrangements might be strongly influenced by the value of personal use.

To evaluate these hypotheses a survey of hundreds of drivers, both those who have an employer
provided car and those who maintain a privately owned car was conducted. Similar questionnaires are distributed to the two groups including questions on their daily activity pattern, socio economic and various attitudinal questions towards car use. These data are used to evaluate the differences between the groups in few domains. First, in terms of such parameters as car usage, work type, past involvement in road accidents and socio economic characteristics. The data compiled are compared to national averages from Israel Police and Ministry of Transport statistics. Second, the safety characteristics of the passenger cars as well as drivers awareness to then, and maintenance habits are examined. Third, daily activity and travel patterns, driving style and attitudes towards employer provided cars are appraised and compared.

Stated preference questions regarding various changes in the value of personal use are presented to employees who currently get an employer provided car in order to evaluate potential changes in car holding and travel behavior, and to employees who currently do not get an employer provided car in order to evaluate their willingness to accept such a car. Envisioned models focusing on the combined impact of all the mentioned factors on travel behavior and road safety will be estimated in the next few months.

Preliminary results of the survey indicate interesting travel and driving patterns, attitudes and characteristics of employees who currently get an employer provided car. The majority of them are males at their forties, employed in the industry (especially in high-tech companies), with high income. Their household typically holds two cars, one of them is the employer provided car. Approximately 45% of them self reported that their average kilometers traveled per year using the employer provided car is above 30,000, compared to the Israeli average per passenger car of 16,500. One third of them stated that they would make less trips if they would have a private car instead of the employer provided car. The majority of the employer provided cars are equipped with only two airbags. Noteworthy is the finding that one third of drivers are not aware of other safety measures of the car (e.g. electronic stability program (ESP)) but more than 70% stated that they are willing to pay for additional safety improvements when purchasing a private car. In regard driving behavior, about half of the drivers admit that the driving style of an employer provided car is different. The impact of the value of personal use seems to be important; approximately one third of drivers consider conceding the employer provided car due to the new tax reform; an additional one third stated they will do so if the value of personal use is higher. These results, even still partial, provide enough indications to sustain the research hypothesis and therefore should serve the decision making site regarding employer provided car policy in Israel.