Abstract

Company cars that include free fuel, insurance and maintenance have become a staple employee benefit in many Israeli and European companies. Moral hazard would suggest that the benefits associated with these cars would result in lower driving care and higher accident rates. However, it is often argued that drivers receiving this benefit face longer commutes and/or a more difficult work schedule which would result in an increased rate of car accidents regardless of a moral hazard effect. Using a difference in differences strategy, we analyze the impact of a legislative change that doubled the monthly tax rate on company cars in Israel (an annual increase in costs of about \$3,500). We find evidence that this increase in company car costs resulted in an 11% decrease in the probability of an accident for company car type drivers.