Grunberg & Co.

Chartered Accountants

A Guide to Company Cars

IF YOU ARE THINKING ABOUT HOW TO RUN CARS AND VANS THROUGH A BUSINESS THERE ARE MANY PERSONAL TAX ISSUES TO CONSIDER. WE HAVE CREATED THIS GUIDE TO HELP YOU DECIDE THE BEST OPTION FOR YOU.

Company Car Tax

If you are driving a car provided by your employer and it is available for you to use personally, it is viewed as a taxable benefit. HM Revenue and Customs (HMRC) attaches a monetary value to the private use of the vehicle and collects tax on it; this is what we know officially as Car Benefit in Kind Tax (BIK).

There are two separate BIK tables, one for those driving a car registered after 6th April 2020, and one for those that drive a vehicle registered before that date.

Calculation of the tax is based on CO_2 emissions of the specific car provided combined with other factors, these being:

- The manufacturer's list price (P11D value) of the car when it is first registered plus optional extras. N.B. the value of the car is not the second-hand value or the discounted price the company pays for the car.
- The tax rate you are in (20%, 40% or 45%) based on your annual income.
- The type of fuel the car runs on.
- The benefit also depends on whether the car is available for the whole year.

The easiest way to work out the tax you pay is by using **HMRC's own car tax calculator**, which will ask for all of the above details, plus any tax-reducing facts like your capital contribution (this is limited to £5,000) to the initial cost of the vehicle.

Here is a calculation example in three steps:

1. Determine the car's list price (P11D value) plus accessories provided.
2. Multiply this value by the company car tax rate – based on its CO_2 emissions this is the **BIK value**.
3. Multiply the BIK value by your **personal tax rate** of either 20, 40 or 45% to get the amount payable.

Classic Cars

A 'classic car' is one that is 15 or more years old and whose market value at the end of the tax year is £15,000 or more.

If an employee is provided with a classic car, to work out the cash equivalent we use the market value of the car for the tax year instead of the list price when new, if the market value is greater.

Petrol and Diesel Vehicles

The tax bill on diesel cars will typically be more expensive (there is a four per cent surcharge) up to a maximum of 37% for car models that do not meet the Euro 6d emissions standards.

Because of their lower CO2 emissions, hybrid cars can be a great alternative. These vehicles will fall into a lower car tax band.

Personal tax on a company van benefit

If a vehicle classes as a van, the benefit is taxed slightly different compared to a car. Instead of looking at the list price and CO2 emissions, there is a flat rate figure that HMRC provide. For 2022/23, this is £3,600.

There is also the option of a zero-emission van. This is an even smaller taxable benefit in kind compared to a standard company van.

Fuel

If your employer provides fuel for your company vehicle, this will give rise to a separate taxable benefit in kind. If the employer only pays for business purposes, no benefit will arise.

If fuel is provided for a company car, you take an apportionment of the flat rate figure, depending on your vehicle's CO2 emissions. The relevant percentage figure is multiplied by £25,300 to arrive at the fuel benefit charge.

If fuel is provided for a company van, a standard flat rate figure is used (£688 for 2022/23), as the van benefit itself.

Pool cars

No benefit will arise if the employee has some incidental private use of a pool car. A pool car is essentially a shared vehicle which is mainly used for business purposes and are kept normally at the business premises. No benefit in kind arises as long as private use is incidental and the pool car is not normally kept overnight at the employee's residence.

Mileage Rates

If you use a vehicle for a genuine business trip (using either a company car or a private car), your employer can reimburse you by using HMRC's flat rates and if the business mile rate paid within these rates than no benefit in kind arises. If payments are above the HMRC rates than the access will have to be reported on the form P11D giving rise to a National Insurance liability for the company and income tax liability for the employee.

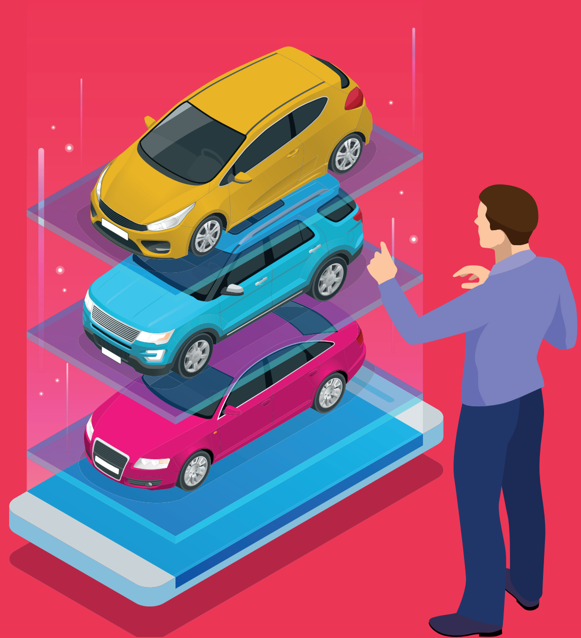
According to HMRC, trips are seen as business-related when the work can't be done unless the trip is made, and the employee needs to be somewhere other than the usual workplace to carry out the job.

There are different rates depending on whether you use a company vehicle or a private vehicle.

It is worth noting, that if your employer reimburses you below these amounts, you can claim additional tax relief on the difference.

LEASING OR BUYING A COMPANY VEHICLE?

For an employer, whether the vehicle is leased or purchased may have substantial differences to the amount of tax relief obtained. In either situation the benefit in kind position for your employees is not affected.



Purchase

If you purchased a vehicle, you will be able to claim Capital Allowances on it. This is a set percentage that can be offset against your profit, and is dependent upon the vehicle's CO_2 emissions.

Hire Purchase (HP)

Under a hire purchase, legal ownership of the vehicle passes to the company at the date the contract is signed. You will then simply pay for the asset over a period of time, normally on a monthly basis.

Monthly HP repayments will contain both an interest and a capital repayment element. The capital element is not an allowable deduction against business profits, whereas the interest element is.

You will however, be able to claim capital allowances on the cost of the vehicle, similar to if you purchased the vehicle outright (as above).

Lease

There are two types of leases, an operating lease and a finance lease.

An operating lease is where the business simply pays a rental payment to the legal owner of the asset. All of the expenses incurred can be offset against business profits.

A finance lease is where the business is required to treat the lease in the same way had it bought the vehicle by way of a loan. The business will therefore depreciate the asset over its normal life, and will charge depreciation and interest payments against business profits. This is one of the only times a business will get a tax deduction for depreciation.

In either situation, the asset is being borrowed from someone else, so no capital allowances can be claimed.

Where the vehicle in question has CO_2 emissions of 50g or more, only 85% of the lease costs will be allowable. If your business is VAT registered, you can also reclaim 50% of the VAT relating to the lease of company vehicles.

ELECTRIC VEHICLES

With the sale of new petrol and diesel cars set to end by 2030, increasing fuel costs and the ongoing threat of climate change, it is little wonder that more people than ever are considering changing to an electric car.

But, before you take the leap, it's important to make sure you are clear about the tax implications of an electric car purchase, hire-purchase, PCP arrangement or lease.

Being self employed can I claim Capital Allowances on the purchase of an electric car?

100% First Year Allowances (FYA) can currently be claimed on the purchase of an electric car. That means you can deduct the cost of the car from your profits before tax in the accounting period during which you purchase the vehicle. You do receive capital allowances on petrol and diesel vehicles but these are received over a number of years.

If you also use the car for personal journeys, you will only be able to claim in proportion to the time you use the car for business journeys. That means if you use the car for personal journeys 10 per cent of the time, you will only be able to claim 90 per cent of the cost of the car in Capital Allowances. **This is only the case for sole traders and partnerships**.

Because you are likely to be able to reduce your pre-tax profit significantly, you may want to consider in which tax year you make the purchase. The benefits may be greater in a year with higher income.

You can claim Capital Allowances when buying outright or with a hire-purchase agreement. Should you subsequently sell the car, however, there will be a tax charge on the amount received.

Can I reclaim VAT on the purchase of an electric car?

As a general rule, no. However, if you are VAT registered and the vehicle is used exclusively for business you can. This is therefore only likely to apply in the case of pool cars or taxis. This is the same as the rule for petrol and diesel cars.

What about Personal Contract Purchase (PCP)?

PCP finance deals are a very popular way of purchasing a vehicle nowadays, often consisting of a modest initial deposit, followed by a series of comparatively low monthly payments. At the end of the term, you will generally have the option either to trade the vehicle in for a new one on a new contract or to make a 'balloon' payment to own the vehicle outright.

However, crucially, PCP arrangements will usually be considered to be a finance lease and so they would not normally qualify for first-year Capital Allowances. As a result, there can be significant tax advantages to opting for a hire-purchase agreement, rather than a PCP arrangement when buying an electric car for your business.

That said, there are some limited circumstances where the detail of a PCP agreement means it would be eligible for first-year Capital Allowances. This can be the case where the balloon payment element is below the expected future market value of the vehicle. You should seek tax advice if you are considering this option with a view to claiming Capital Allowances.

Businesses can benefit from the new super-deduction, which offers 130% first-year allowance on qualifying electric charging points for cars and vans. To qualify for the relief the company must use the charging point in their own business. This will last until 31 March 2023.

The 130% Super-deduction available for companies between April 2021 and March 2023 does not apply to electric cars but does apply to commercial vehicles which would be eligible for plant and machinery allowances such as vans, lorries, tractors and taxis.

What if I lease an electric car?

If you lease an electric car, you can deduct that cost from your taxable profits. A company can deduct the whole cost of the lease with a sole trader or partnership being able to deduct the cost in proportion to your business use.

> *While this route allows you to spread the cost, you lose the significant tax benefit that comes with first-year Capital Allowances when purchasing an electric car.*

Nevertheless, there are benefits to leasing, rather than purchasing, an electric car. Current battery technology means that performance does degrade over only a few years and so batteries – a significant element of the overall cost of the vehicle – will need replacing reasonably quickly. By leasing, you avoid this issue.

Can I reclaim VAT on the lease of an electric car?

There is a 50% block on input VAT recovery if the car is available for private use whether electric or not.

If not available for private use and purely for business 100% of the VAT may be claimed.

For VAT purposes the rules are no different whether the car is electric or not.

What mileage claims can I make for electric car journeys?

If the company or business pay the lease or own the vehicle and you charge your car at home, you can claim 5p per mile for business journeys. Commuting to your permanent workplace is not considered a business journey. However, if you pay for the lease or own the electric car personally then you would still claim the relevant mileage rate of 45p/25p irrespective of the fact it's electric.

How about charging points?

You can claim back the VAT element of a charging point if you are registered for VAT.

For sole traders or partnerships, you can also deduct the cost of a charging point in proportion to your business use. For company cars, the company can pay for a charging point to be installed at the car users home with no benefit in kind arising.

If you have a business premises, the Government offers a scheme to help with the cost of the installation of electric car chargers at those premises – please click here for more information.

OTHER BENEFITS OF ELECTRIC VEHICLES

- **Congestion charge exemptions** – Electric vehicles are exempt from congestion charging and clean air zone charges.

Do I have to pay vehicle tax (road tax)?

Electric vehicles are exempt from the vehicle tax, meaning it's free to tax them, but the Benefit in Kind (BIK) rate is two per cent from 2022/2023. Electric cars are also exempt from the congestion charge. Company cars which have to travel in and out of cities all the time will hugely benefit from this additional saving.

Other benefits when using electric vehicles

- **Electric charge points and charging costs** – Any business that installs charging points for electric vehicles between now and 31st March 2023, can claim a 100 per cent first-year allowance for these costs.

- **Electric vans** – The taxable benefit for having the private use of a zero-emission van were reduced to nil from April 2021. The previous year, electric vans were taxed at 80 per cent of the benefit for a normal van.

- **Salary sacrifice** – Where an electric car is provided under salary sacrifice, the optional remuneration rules do not apply.

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