

# Plus<sup>+</sup> accounting

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## Company car taxation

This guide focuses on company car tax rules and how tax legislation is being used to encourage businesses to acquire more environmentally-friendly vehicles.

The provision of a company car is normally a taxable benefit for an employee or a director. The company car benefit charge for a full year is calculated by multiplying the price of the car for tax purposes (in most cases, its list price plus accessories less capital contributions) by the 'appropriate percentage'.

The 'appropriate percentage' used to calculate the benefit is based on the level of CO<sub>2</sub> emissions. The benefit charge is then subject to tax at the effective tax rate of each individual. Employers pay Class 1A national insurance contributions (NICs) on the benefit at 13.8 per cent.

The annual taxable value of the benefit remains up to a maximum of 35 per cent of the list price of the car when first registered.

The list price includes the full cost of the car, car tax (if applicable), VAT and delivery charges. There is no cap on the list price of the car for calculating the benefit. The list price of most accessories must be included whether fitted when new or subsequently.

Cars running solely on diesel fuel are currently subject to a 3 per cent supplement, subject to the 35 per cent cap. Employees and directors who are provided with a

company car that is propelled solely by electricity will not have to pay tax on the benefit. Additionally, cars first registered before January 1998, for which there are no reliable CO<sub>2</sub> emissions data, are taxed according to their engine size.

### Fuel benefit charge

Where the employer also pays for any fuel used privately by the employee, there is an additional benefit charge applied to a standard value of £21,100. This charge is based on the same CO<sub>2</sub> car benefit percentages referred to previously.

There is no fuel benefit charge for vehicles propelled solely by electricity.

#### Employee contributions

Where the employee is required as a condition of the car being made available to pay for the private use of a car, the value of the benefit is reduced accordingly on a pound for pound basis.

By contrast it is 'all or nothing' for the fuel benefit charge, which means the full tax charge on the value of the benefit is due unless the employee reimburses all private fuel costs.

### Business UPDATE

HM Revenue & Customs publishes advisory fuel-only rates which will be accepted either for employers reimbursing employees for the cost of fuel for business mileage, or for employees reimbursing employers for the cost of fuel for private mileage in a company car. Alternative rates may be negotiated, for example when it is necessary for the performance of his or her duties that an employee uses a vehicle with a typically higher fuel consumption rate.

#### Advisory fuel-only mileage rates from 1 March 2013

| Engine Capacity | Petrol |
|-----------------|--------|
| Up to 1400cc    | 15p    |
| 1401cc - 2000cc | 18p    |
| Over 2000cc     | 26p    |
| Engine Capacity | Diesel |
| 1600cc or less  | 13p    |
| 1601cc - 2000cc | 15p    |
| Over 2000cc     | 18p    |

#### Tax payable

Income tax at the basic, higher or additional rate is chargeable depending

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on the employee's rate of pay. The tax is usually collected under the PAYE system by appropriate adjustment of the employee's tax code.

For the benefit to be attractive, the employee must pay less in extra tax than it would cost them to run their own car out of their taxed income. These are examples of the 2013/14 tax costs to an employee of a company car during a whole tax year:

## Basic rate liability example

| Tax rate 20 per cent |                               |         |          |         |          |
|----------------------|-------------------------------|---------|----------|---------|----------|
| List price           | CO <sub>2</sub> emission g/km | Petrol  |          | Diesel  |          |
|                      |                               | Car (£) | Fuel (£) | Car (£) | Fuel (£) |
| £13,000              | 164                           | 624     | 1013     | 702     | 1139     |
| £18,000              | 196                           | 1116    | 1308     | 1224    | 1435     |
| £25,000              | 240                           | 1750    | 1477     | 1750    | 1477     |

## Higher rate liability example

| Tax rate 40 per cent |                               |         |          |         |          |
|----------------------|-------------------------------|---------|----------|---------|----------|
| List price           | CO <sub>2</sub> emission g/km | Petrol  |          | Diesel  |          |
|                      |                               | Car (£) | Fuel (£) | Car (£) | Fuel (£) |
| £13,000              | 164                           | 1248    | 2026     | 1404    | 2279     |
| £18,000              | 196                           | 2232    | 2616     | 2448    | 2870     |
| £30,000              | 240                           | 4200    | 2954     | 4200    | 2954     |

## Additional rate liability example

| Tax rate 45 per cent |                               |         |          |         |          |
|----------------------|-------------------------------|---------|----------|---------|----------|
| List price           | CO <sub>2</sub> emission g/km | Petrol  |          | Diesel  |          |
|                      |                               | Car (£) | Fuel (£) | Car (£) | Fuel (£) |
| £13,000              | 164                           | 1404    | 2279     | 1580    | 2564     |
| £18,000              | 196                           | 2511    | 2943     | 2754    | 3228     |
| £40,000              | 240                           | 6300    | 3323     | 6300    | 3323     |

## Company vans

The taxable benefit for the unrestricted use of company vans is £3,000 plus a further £564 of taxable benefit if fuel is provided by the employer for private travel. Home to work travel in a company van is not deemed to be private use.

The tax payable on the use of a company van ranges from £600 up to £1,603.80 p.a., and the employer's Class 1A NIC payable ranges from £414 to £491.83 p.a.

## Business use of an employee's own car

It is normal practice for employees to be reimbursed per mile for business use of their own cars.

A statutory system of tax and NIC free mileage rates applies for business journeys in employees' own vehicles:

| Cars and vans                             |              |
|---|--------------|
| On the first 10,000 miles in the tax year | 45p per mile |
| On each additional mile above this        | 25p per mile |
| Motorcycles                               | 24p per mile |
| Bicycles                                  | 20p per mile |

Excess mileage payments are reportable on forms P11D and taxed accordingly. Note that the lower rate for more than 10,000 business miles only applies to income tax. The NIC rate remains at 45p for any number of miles incurred.

If an employee travelling on business carries fellow employees as passengers, they may be reimbursed a further 5p per passenger tax free provided it is a business journey in respect of the passengers. No claim can be made if the employer does not pay passenger payments.

## Tax-free benefits

### Car parking

The provision of a car parking space at or near the employee's place of work is not an assessable benefit.

### Pool cars

There is no tax for using a pool car. This is one where private use is merely incidental to the business use, and it is not normally used by one employee to the exclusion of all others. Please note that a pool car must not normally be kept overnight at or near an employee's home.

### 'Lower paid' employees

The provision of a car for an employee other than a director who is paid at a rate below £8,500 per year (including the value of benefits) does not attract any charge to income tax. Nor is there any charge on fuel for private use provided to such employees.

## Compliance Pointers

Accurate and up-to-date records of all business mileage undertaken in private vehicles must be maintained at all times. In the case of company cars, all fuel receipts should be retained as proof of actual costs incurred. Employers should ensure full pool car mileage records are kept to avoid unexpected tax bills in the event of a PAYE inspection.

In order to prevent too little tax being deducted at source on the provision of annual benefits, it is important to verify your personal tax code periodically to ensure that the correct benefit is being applied.



We can help you understand more about company car taxation. Contact an adviser to find out more.