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FACT SHEET
Company Cars and vans

Thinking of getting a new car or van this year?

You've probably seen reference in the media to the Government's new scrappage scheme that was launched on 18 May 2009. There are tax other changes of which you need to be aware too so I thought you might appreciate this quick summary.

Scrappage scheme

The idea obviously is to encourage you to trade in an old car or van and get a £2,000 discount on a new model. The scheme will run until March 2010, or until the funding set aside for the Government discount of £1,000 per vehicle runs out. The participating manufacturers are also giving a discount of £1,000 per vehicle, so the customer benefits from a total a reduction in the list price of £2,000.

Businesses as well as private individuals can take part in the scheme, as long as the vehicle they offer for scrap has a valid MOT and was first registered in the UK before 1 September 1999. Vans qualify for this scheme if they weigh less than 3,500kg. The old vehicle must also be registered in the name of the person who trades it in, for at least 12 months before the registration of the new vehicle.

Capital allowances

As you may recall your business can secure 100% relief for the cost of most new business assets up to an annual cap of £50,000 a year. New vans qualify for this 'annual investment allowance' as do electric cars and cars with CO2 emissions of 110g/km or less. Cars with CO2 emissions above 110g/km only qualify for 'writing down allowances'. In the past these allowances enabled you to spread the cost of the car over a number of years – writing off 25% of the cost in the first year and then 25% of what was left each year until you sold the car.

New rules for capital allowances on cars came into effect in April – following announcements in the 2008 Budget and Finance Act. Now the level of the writing down allowance depends on the CO2 emissions of the car. If they are between 111g/km and 160g/km the rate is 20% per year. If more than 160g/km the rate is only 10% per year. This means much less tax relief each year than under the old system. If you take part in the scrappage scheme, only the net price actually paid after the full £2,000 discount is taken into account when capital allowances are available. The scrapped vehicle is treated as being disposed of for nil proceeds, not for the £2,000 discount.

VAT

The VAT position is complicated as only the manufacturer's contribution of £1,000 is treated as a cash-back for VAT purposes. The purchaser must reduce the VAT they reclaim in respect of the van by £130.43, which is 15/115ths of the gross £1,000 discount. The £1,000 Government subsidy does not change the VAT position. Businesses cannot normally reclaim VAT on new cars, unless the car is to be used as a taxi, driving instruction car, or for self-drive hire.

Benefit in kind

If you are planning on buying a car which will have private use (eg: for a director to travel to and from the office) do note that the car benefit in kind charges will be increasing over the next two tax years.

The percentage of list price used as the chargeable benefit will increase by one percentage point in 2010/11 and again in 2011/12. Also the £80,000 cap on the list price will be removed for all cars from 6 April 2011, which will produce some very high benefit charges for very expensive cars.

In the meantime if you want to anticipate the tax cost of a new car do let me know which models you are considering.

Finally

As ever, if you would like further clarification or advice on any of the above – or indeed on any other tax related issues, please get in touch. It's always easier for me to help you pay less tax if I know what you're planning. It's much more difficult after the event!

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