



## Company car taxation

The company car tax rules and how legislation encourages businesses to acquire more environmentally-friendly vehicles



For many, the company car remains an essential business requirement and an important benefit in attracting, rewarding and retaining staff.

### Company car benefit

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 car's CO<sub>2</sub> emissions level. 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%.

The annual taxable value of the benefit remains up to a maximum of 35% of the list price of the car when first registered. A common mistake is to assume the calculation is based on the second hand purchase price or the depreciated value of the car, which could yield a much lower benefit in kind value.

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.

There is a 3% supplement for cars running solely on diesel fuel, subject to the 35% cap. Employees and directors who are provided with a company car that is powered 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

There is an additional benefit charge applied to a standard value of £21,700 where the employer also pays for any fuel used privately by the employee. This charge is based on the same CO<sub>2</sub> car benefit percentages referred to above.

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

### Employee contributions

The value of the benefit is reduced accordingly on a pound-for-pound basis

where the employee is required to pay for the private use of a car.

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

HMRC 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.

Advisory fuel-only mileage rates from 1 September 2014	
Engine Capacity	Petrol
Up to 1400cc	14p
1401cc - 2000cc	16p
Over 2000cc	24p
Engine Capacity	Diesel
1600cc or less	11p
1601cc - 2000cc	13p
Over 2000cc	17p



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## Tax payable

Income tax at the basic, higher or additional rate is chargeable depending 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 2014/15 tax costs to an employee of a company car during a whole tax year:

BASIC		Tax Rate 20%			
List Price	CO <sub>2</sub> emission g/km	Petrol		Diesel	
		Car (£)	Fuel (£)	Car (£)	Fuel (£)
£13,000	164	650	1085	728	1215
£18,000	196	1152	1389	1260	1519
£25,000	240	1750	1519	1750	1519

HIGHER		Tax Rate 40%			
List Price	CO <sub>2</sub> emission g/km	Petrol		Diesel	
		Car (£)	Fuel (£)	Car (£)	Fuel (£)
£13,000	164	1300	2170	1456	2430
£18,000	196	2304	2778	2520	3038
£30,000	240	4200	3038	4200	3038

ADDITIONAL		Tax Rate 45%			
List Price	CO <sub>2</sub> emission g/km	Petrol		Diesel	
		Car (£)	Fuel (£)	Car (£)	Fuel (£)
£13,000	164	1463	2441	1638	2734
£18,000	196	2592	3125	2835	3418
£40,000	240	6300	3418	6300	3418

## 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 NICs free mileage rates applies for business journeys in employees' own vehicles:

Vehicle type	First 10,000 miles in tax year	Each mile thereafter
Cars and vans	45p per mile	25p per mile
Motorcycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

Excess mileage payments should be reported on form P11D and taxed accordingly. 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.

Employees who travel on business and carry fellow employees as passengers can be reimbursed a further 5p per passenger tax free, provided it is also a business journey for 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 usually no tax for using a pool car, provided it meets specific conditions. This is one where:

- the car is made available to, and actually used by, more than one employee
- private use is merely incidental to the business use
- it is not normally used by one employee to the exclusion of all others.

A pool car must also 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. There is also no 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.

**Contact us to discuss company cars and your business.**