

Company Car Tax

The system for taxing those who use company cars has remained fundamentally unchanged for some years, save for stepped changes in the emissions thresholds. The basis of the charge is to tax a figure calculated by multiplying the car's list price by an emissions-based percentage, with a 3% surcharge on diesel powered cars.

The maximum taxable value of the benefit is 35% of the list price of the car when first registered. The list price includes car tax (if applicable), Value Added Tax and delivery charges, and is subject to an upper limit of £80,000. This upper limit will be removed from April 2011.

Cars emitting CO₂ at or below a specified level are taxed on 15% of the list price. This is the usual minimum charge and will apply up an emission level of 139 g/km:

Qualifying low emissions cars (QALIECs) with CO₂ emissions at 120 g/km and below are taxed at 10% of the list price (13% for diesel cars).

Cars running solely on diesel fuel are subject to a 3% supplement. Special rules apply to cars running on electricity, electricity and petrol, gas or petrol and gas, and E85 fuel, which are generally seen as more environmentally friendly.

Cars with higher levels of CO₂ emission are taxed on a graduated scale rising to a maximum (for both petrol and diesel) of 35% of the car's price. The detailed figures are shown below. These figures apply to all company cars, including second cars.

| CO ₂ emissions (g/km) | Appropriate % | |
|-------------------------------------|---------------|-------------|
| | Petrol % | Diesel % |
| 120 and below | 10 | 13 |
| 121 - 139 | 15 | 18 |
| 140 - 144 | 16 | 19 |
| 145 - 149 | 17 | 20 |
| 150 - 154 | 18 | 21 |
| 155 - 159 | 19 | 22 |
| 160 - 164 | 20 | 23 |
| 165 - 169 | 21 | 24 |
| 170 - 174 | 22 | 25 |
| 175 - 179 | 23 | 26 |
| 180 - 184 | 24 | 27 |
| 185 - 189 | 25 | 28 |
| 190 - 194 | 26 | 29 |
| 195 - 199 | 27 | 30 |
| 200 - 204 | 28 | 31 |
| 205 - 209 | 29 | 32 |
| 210 - 214 | 30 | 33 |
| 215 - 219 | 31 | 34 |
| 220 - 224 | 32 | 35 |
| 225 - 229 | 33 | |
| 230 - 234 | 34 | |
| 235 and above | 35 | |

CO₂ emission information

For all cars first registered from at least November 2000, the definitive CO₂ emissions figure for tax purposes is recorded on the Vehicle Registration Document (V5). Under an agreement with HM Revenue & Customs, the Society of Motor Manufacturers and Traders (SMMT) is providing a CO₂ emissions enquiry service on their website at www.smmt.co.uk for cars first registered from January 1998.

Older Cars

Cars first registered before January 1998, for which there are no reliable CO₂ emissions data, will be taxed according to their engine size, as follows:

| Engine Size (cc) | Percentage of car's price charged to tax |
|------------------|--|
| 0 – 1400 | 15% |
| 1401 – 2000 | 22% |
| 2001 and more | 32% |

Fuel Scale Charges

Where the employer pays for any fuel used privately by the employee, there is an additional scale charge based on the CO₂-based car benefit percentage applied to a standard value of £16,900.

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). Capital contributions of up to £5,000 made by employees towards the cost of the car and/or accessories, when the car is first made available, will reduce its price for tax purposes.

By contrast it is "all or nothing" for the fuel scale charge, which remains at the full value unless the employee pays for all private fuel!

HM Revenue & Customs has published advisory fuel rates which will be accepted either for employers re-imbursing employees for the cost of fuel for business mileage, or for employees re-imbursing employers for the cost of fuel for private mileage. Alternative rates may be negotiated, for example when it is necessary for the performance of his or her duties that an employee uses a four-wheel drive vehicle, a higher rate per mile might be agreed due to the typically higher fuel consumption of such vehicles.

Advisory fuel rates (from 1 December 2009)

| | <i>Petrol</i> | <i>Diesel</i> | <i>LPG</i> |
|---------------|----------------------|----------------------|----------------------|
| Engine size | <i>Rate per mile</i> | <i>Rate per mile</i> | <i>Rate per mile</i> |
| Up to 1400cc | 11p | 11p | 7p |
| 1401 - 2000cc | 14p | 11p | 8p |
| Over 2000cc | 20p | 14p | 12p |

Tax Payable

These standard charges are subject to income tax at basic or higher rate (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.

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For the benefit to be attractive, the employee must pay less in extra tax than it would cost him to run his own car out of his taxed income. These are examples of the 2009/10 tax costs to an employee of a company car:

| List Price | Engine Size cc | CO ₂ emission g/km | Tax Rate 20% | | | | Tax Rate 40% | | | |
|------------|-------------------|-------------------------------------|--------------|-----------|----------|-----------|--------------|-----------|----------|-----------|
| | | | Petrol | | Diesel | | Petrol | | Diesel | |
| | | | Car £ | Fuel £ | Car £ | Fuel £ | Car £ | Fuel £ | Car £ | Fuel £ |
| £13,000 | 1800 | 165 | 546 | 710 | 624 | 811 | 1092 | 1419 | 1248 | 1622 |
| £18,000 | 1300 | 200 | 1008 | 946 | 1116 | 1048 | 2016 | 1893 | 2232 | 2096 |
| £25,000 | 3000 | 240 | 1750 | 1183 | 1750 | 1183 | 3500 | 2366 | 3500 | 2366 |

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: 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 (NOT 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.

Special Consideration for Sole Traders

If your spouse is employed in your business (but not as a partner), it can be very tax efficient to provide them with a car, as long as they earn well below £8,500. The use of the car can be tax-free in their hands, and the business will get full tax relief on all the expenses connected with the car, provided you can demonstrate the car is necessary for business purposes.

Business Use of an Employee's Own Vehicle

It is quite normal practice for employees to be reimbursed at a reasonable mileage rate for business use of their own vehicles.

A statutory system of tax and national insurance free mileage rates applies for business journeys in employees' own vehicles, as follows:

Cars and vans:

| | |
|---|--------------|
| On the first 10,000 miles in the tax year | 40p per mile |
| On each additional mile above this | 25p per mile |
| Motor cycles | 24p per mile |
| Bicycles | 20p per mile |

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It is no longer possible to make a claim for tax relief based on actual receipted bills, nor claim capital allowances or interest on loans related to car purchases.

Unless the employee is reimbursed at a rate higher than the statutory mileage rate, the payments do not need to be reported on a P11D.

Company vans

The taxable benefit for the unrestricted use of vans will be £3,000. There is a further £500 of taxable benefit if the employer provides fuel for private travel.

| Van and fuel charge | 2009/10 |
|--------------------------|---------|
| Tax (20% taxpayer) | £700 |
| Tax (40% taxpayer) | £1,400 |
| Employer's Class 1A NICs | £448 |

Van drivers can avoid the benefit in kind charge of £3,000 per year, if they agree not to use the van for personal journeys. Driving to and from work is acceptable as long as there is a reasonable amount of business use. It is advisable to keep a regular check on the vehicle's mileage to ensure the 'only for business rule' is kept.

Tax Saving Check List

- Keep adequate records of business mileage.
- Always check your tax code to see that the correct benefit is being applied.
- Sole traders and partners should consider the potential tax advantages of providing their spouse with a company car.
- If you have low private mileage, you may be better off if you pay for all your own private fuel.
- If you have high business mileage, it may be better to use your own car and claim "mileage" from your employer.
- Encourage your employer to apply for a P11D dispensation.
- If you are on the borderline of "lower paid", think about setting up a contribution for the use of the car, to keep on the right side of £8,500.
- Tax-free parking is a must!

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