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Company car taxation

"Everything in life is somewhere else, and you get there in a car."
E. B. White

Company cars remain an important tool in rewarding, attracting and retaining staff. It therefore comes as no surprise that the Government views the provision of company cars by employers to their employees as a lucrative source of revenue for the UK.

With the UK Government also committed to lowering CO_2 emissions, this guide seeks to explore the company car tax rules, the upcoming proposed changes and how tax legislation is being used to encourage businesses to use more environmentally-friendly vehicles. A review by both employers and employees of their company vehicle(s) may be appropriate. Please contact us for advice.

Company car benefit

The provision of a company car is normally considered a taxable benefit for an employee or a director. The company car benefit charge for a full year is obtained 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_2 emissions. The benefit charge is then subject to tax at the effective tax rate of each individual. Employers pay Class 1A National Insurance contributions (NIC) on the benefit at 13.8 per cent.

The taxable value of the benefit remains up to a maximum of 35 per cent of the list price of the car when first registered. A common mistake is for taxpayers 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.

It is important to note that the list price includes the full cost of the car, car tax (if applicable), Value Added Tax 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 mentioned above. 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_2 emissions data, is 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 £20,200. This charge is based on the same CO_2 car benefit percentages referred to above.

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

Employee contributions

Where the employee contributes to the cost of the car, the figure for list price is reduced accordingly on a pound for pound basis, to a maximum contribution of £5,000.

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

HM Revenue & Customs has published 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. The advisory fuel-only rates are reviewed four times a year on 1 March, 1 June, 1 September, and 1 December. Please contact us for the most up to date rates.

130 High Street
Hungerford RG17 0DL
01488 682 027

Company Car Taxation

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 2012/13 tax costs to an employee of a company car:

			Petrol		Diesel	
Applicable tax rate	List price	CO_2 emission g/km	Car	Fuel	Car	Fuel
20%	£18,000	200	£1,116	£1,252	£1,224	£1,374
40%	£18,000	200	£2,232	£2,505	£2,448	£2,747
50%	£18,000	200	£2,790	£3,131	£3,060	£3,434

Company vans

The taxable benefit for the unrestricted use of company vans is £3,000 plus a further £550 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 £1,775 p.a., and the employer's Class 1A NIC payable ranges from £414 to £489.90 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
Motor cycles	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. This concession is now less favourable given the personal allowance has steadily risen to £8,105, whilst the 'lower paid' employee limit has remained unchanged.

Company Cars – Post 2012/13

Many employees and employers will see an increase in their respective income tax and NIC bills in the coming years. Some of the announcements already made are listed below.

- In 2013/14, the maximum appropriate percentage at which 10 per cent is charged reduced from 99g/km to 94 g/km.
- From 2014/15, the appropriate percentage for cars emitting more than 75g/km of CO2 will be increased by 1 per cent to a maximum of 35 per cent in the 2014-15 tax year.
- The 0 per cent and 5 per cent rates for low emission cars will be abolished from 2015/16. The appropriate percentage bands will increase by 2 per cent. Such cars will have a percentage of 13 per cent (16 per cent for diesel). In addition, the scale is extended from 35 per cent to 37 per cent.
- From 2016/17, the 3 per cent premium for diesel engines is removed. The appropriate percentage bands will again increase by another 2 per cent. Such cars will have a percentage of 15 per cent.

Compliance Points

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.