Company Cars

A guide to the tax implications

JACKSON STEPHEN

ACCOUNTANTS / ADVISERS

A REAL ASSET

Business owners often wish to understand the tax implications of company cars, whether they are presenting an employee with a company car, or deciding whether to finance their own vehicle personally or through their company.

There are a number of factors which make providing definitive advice in this area challenging, and often the costs of providing bespoke advice can outweigh the benefits.

This guide sets out to explain the tax implications of providing a company car and provide the reader with the tools to make an informed decision about how to proceed. It is not designed to be bespoke tax advice.

General conclusions

Generally, it is only tax efficient to provide a company car if the vehicle has low CO2 emissions. There is no "tipping point" but a good rule of thumb is if the vehicle has CO2 emissions of 75g/km or less (typically this is likely to be an electric car or hybrid) it may be better to be provided as a company car.

Unless an employee with a company car is undertaking a high level of private mileage each year, it is unlikely that a private fuel card will be tax efficient.

Company vans remain relatively tax efficient, as does providing private fuel on such vehicles.

Company car – the tax implications

A car provided to an employee (including Directors) will give rise to a "benefit in kind", or "BIK" for short. This will be taxable as income for the employee (at their marginal rate) and give rise to Employers NIC (at 13.8%).

The BIK is calculated based on a set percentage multiplied by the list price of the car. The % is based on the CO2 emissions on the car as well as the type of fuel. The higher the CO2 emissions, the higher the %.

The rates change each year but can be found on the HMRC website here: https://www.gov.uk/government/statistics/taxable-benefits-in-kind-and-expenses-payments-company-car-tax-rules-2005-to-2016

In general, cars that are not fuel efficient will have a higher BIK and will result in a significant tax cost.

Examples:

On 6 April 2019 Rob receives a new company car, a Mercedes C Class 220 SE diesel. The vehicle has a list price of £31,330 and has CO2 emissions of 103g/km. The rates, BIKs and estimated tax at 40% for the next two years are:

	Rate	BIK	Tax at 40%
2019/20	28%	£8,772	£3,509
2020/21	29%	£9,086	£3,634

On April 6 2019 Paul receives a new company car, a Tesla Model S 100D. The vehicle has a list price of £93,895 and has CO2 emission of 0g/km. The rates, BIKs and estimated tax at 40% for the next 2 years are:

	Rate	BIK	Tax at 40%
2019/20	16%	£15,023	£6,009
2020/21	2%	£1,878	£751

Even with vehicles with low CO2 emissions, the BIK charge can be expensive and prohibitive to providing a company car, although with emissions below 50g/km and a reasonable electric range the BIK percentage from April 2020 can be very low, as in the Tesla example above.

Should I lease or buy within the company?

Lease

Lease costs can be deducted from taxable profits, although cars with CO2 emissions over 110g/km are subject to a 15% disallowance. In addition, only 50% of the VAT can be recovered where private mileage is allowed on the vehicle (likely to be most cases in practise).

Purchase

Any VAT charged on the purchase price cannot be recovered unless the vehicle is solely used for business purposes and there is no private element (unlikely in most cases). The cost of acquiring the car qualifies for tax relief via capital allowances over a number of years:

New car less than 50g/km
100% first year allowance

New or used car less than 110g/km
18% writing down allowance

New or used car over 110g/km
8% writing down allowance

The decision to lease or buy depends on a multitude of factors including the mileage that will be incurred each year, running costs (insurance, repairs, road tax etc), the lease deals available personally/for a business, the resale price and others. Therefore, it can be very difficult to conclude which is the best option.

However, some companies decide to buy a low emissions car, claim capital allowances, then sell the vehicle to the employee after 2 or 3 years, once the vehicle's value has depreciated.

Private fuel card

An additional income tax charge is incurred by the employee if they have a company car and are provided with fuel for private journeys (whether through a fuel card or reimbursed via expenses). The BIK is calculated as a set fuel charge (for 2018/19 this was £24,100) multiplied by the % rate for the car (based on the CO2 emissions). This BIK is subject to income tax for the employee (at their marginal rate of tax) and NIC for the employer (at 13.8%).

Unless the employee is incurring a significant amount of private mileage each year, or the vehicle has low CO2 emissions (and therefore a low BIK rate) it is often more cost effective for the employee to reimburse the employer for private fuel or reclaim the cost of fuel for business journeys from the employer.

Business mileage - company car

Employers can reimburse employees for the cost of fuel incurred on business journeys on a tax-free basis, with no NIC liabilities for the employer, providing the amounts paid do not exceed the HMRC advisory fuel rates. These rates depend on the engine size and fuel type of the vehicle. The rates change regularly and can be found at: https://www.gov.uk/government/publications/advisory-fuel-rates

Business mileage - private car

An employee can claim expenses from the company for business mileage on a tax-free basis. The statutory rates per mile are:

- up to 10,000 miles 45p
- over 10,000 miles 25p

Employers are not required to operate PAYE or incur NIC liabilities providing the amounts paid do not exceed the rates above. If employers pay less than the rates above, the employee can claim income tax relief on the difference via their self-assessment tax return.

What about a car allowance?

A car allowance, paid through the payroll, is a common alternative to providing a company car to an employee. These allowances are subject to PAYE and NIC (both the employer's and employee's) and are taxed the same as any other employment income. The benefit to a business owner is that there is no need to report this on form P11D, and no benefit in kind to calculate each year. It also transfers the obligation to source the vehicle onto the employee, although the employee does not have to spend the cash on a vehicle.

What about a van?

Employer provided vans can be tax efficient as the BIK is set at a lower fixed amount (and is not dependent on CO2 emissions). The rate for 2019/20 is £3,430 and the fuel benefit BIK is £655. This can make a company van and private fuel tax efficient for the employee. Some double cab pickups can be treated as a van for tax purposes, benefiting from the low BIK rates.

Comparison - company car v provide personally

John, a business owner, is looking at leasing a new Mercedes C Class 220 SE diesel, with a list price of £31,330 and CO2 emissions of 103g/km. He has a quote to lease the car for £280+VAT per month (which is the same in the company or privately). He will do 8,000 business miles each year with fuel costs of 12p per mile. Assuming John is a higher rate tax payer and that he will receive a dividend such that he has no overall cost, the company would be better off in 2019/20 by £4,000 by John leasing the car personally. This saving would increase in future years as the BIK rate on a company car increased.

KEY CONTACT

STEVE CROMPTON

PARTNER - HEAD OF TAX

D 01942 292541

M 07790 840394

E steve.crompton@jsllp.co.uk

JACKSON STEPHEN

ACCOUNTANTS / ADVISERS

A REAL ASSET

James House, Stonecross Business Park,
Yew Tree Way, Warrington, Cheshire WA3 3JD

T 01942 292500

F 01942 292501

E info@jsllp.co.uk

www.jacksonstephen.co.uk

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