

Employer Provided Cars

The current regime for taxing employer provided cars (commonly referred to as company cars) is intended:

- to encourage manufacturers to produce cars which are more environmentally friendly and
- to give employee drivers and their employers a tax incentive to choose more fuel-efficient and environmentally friendly vehicles.

We set out below the main areas of importance. Please do not hesitate to contact us if you require further information.

The rules

Employer provided cars are taxed by reference to the list price of the car but graduated according to the level of its carbon dioxide (CO₂) emissions.

Percentage charges

The percentage charge for the majority of cars is between 10% and 35%. The emissions table for 2010/11 is set out below.

2010/11	
CO ₂ emissions in grams per kilometre	% of car's price taxed
75 or below*	5
76 to 120	10
121 to 130**	15
135	16
140	17
145	18
150	19
155	20
160	21
165	22
170	23
175	24
180	25
185	26
190	27
195	28
200	29
205	30
211	31
215	32
220	33
225	34
230	35

*Applicable from 6 April 2010 - 5 April 2015.

**The lower threshold CO₂ emissions figure will be reduced to 125g/km for 2011/12 but see the section on 'Proposed percentage charges for 2012/13' if you are planning to change car.

Examples

Jane was provided with a new company car, a Mercedes CLK 430, on 6 April 2010. The list price is £50,000. The CO₂ emissions are 281 grams per kilometre. Jane regularly drives 20,000 business miles each year.

Jane's benefit in kind in 2010/11 and later years will be £50,000 x 35% = £17,500

Phil has a company car, a BMW 318i, which had a list price of £21,000 when it was provided new on 6 April 2010. Phil does fewer than 1,000 business miles each year. The CO₂ emissions are 188 grams per kilometre. Note: The CO₂ emissions are rounded down to the nearest 5 grams per kilometre - in this case 185.

Phil's benefit for 2010/11 is: £21,000 x 26% = £5,460

If Phil continues to drive the same car his benefit will increase to 27% of list price for 2011/12.

Diesels

Diesel cars emit less CO₂ than petrol cars and so would be taxed on a lower percentage of the list price than an equivalent petrol car. However, diesel cars emit greater quantities of air pollutants than petrol cars and therefore a supplement of 3% of the list price generally applies to diesel cars. For example, a diesel car that would give rise to a 22% charge on the basis of its CO₂ emissions will instead be charged at 25%. The maximum charge for diesel is capped at 35%.

Obtaining emissions data

The Vehicle Certification Agency produces a free guide to the fuel consumption and emissions figures of all new cars. It is available on the internet at www.vcacarfueldata.org.uk These figures are not however necessarily the definitive figures for a particular car:

- for all cars first registered from 1 March 2001 onwards, the definitive CO₂ emissions figure is recorded on the Vehicle Registration Document (V5)
- for cars first registered between 1 January 1998 and 28 February 2001, the definitive figure is found by going to www.smmmt.co.uk This is a service provided by the Society of Motor Manufacturers and Traders (SMMT).

The list price

- The list price of a car is the price when it was first registered including delivery, VAT and any accessories provided with the car. Accessories subsequently made available are also included (unless they have a list price of less than £100).

- The list price is restricted to an upper limit of £80,000. (This upper limit will be removed from 2011/12)
- Employee capital contributions up to £5,000 reduce the list price.

Employer's Class IA national insurance contributions

The benefit chargeable to tax on the employee is also used to compute the employer's liability to Class IA (the current rate is 12.8%).

The exceptions

Cars first registered before 1 January 1998

There is no reliable source of CO₂ emissions data for cars registered before 1 January 1998. Such cars are taxed according to their engine size.

Engine size (cc)	% of list price charged to tax
0 - 1400	15%
1401 - 2000	22%
over 2000	32%

Imports

Some cars registered after 1 January 1998 may have no approved CO₂ emissions figure, perhaps if they were imported from outside the EC. They too are taxed according to engine size.

Engine size (cc)	% of list price charged to tax
1401 - 2000	25%
over 2000	35%

Proposed percentage charges from 2012/13

From 6 April 2012 the CO₂ emissions bands used to work out the taxable benefit for an employee who has the use of a company car will be shifted down by 5g CO₂ per km. This means that a car with 120g CO₂ per km will attract a 15% charge. In addition, the current graduated table of company car tax bands will be extended down to a 10% band, as follows:

2012/13	
CO ₂ emissions in grams per kilometre	% of car's price taxed
75 or below	5
76 - 99	10
100 - 104	11
105 - 109	12
110 - 114	13
115 - 119	14
120	15
125	16
130	17
For every additional 5g thereafter add 1%	
220 and above	35 (max)

Private fuel

There is a further tax charge where a company car user is supplied with or allowed to claim reimbursement for fuel for private journeys.

The fuel scale charge is based on the same percentage used to calculate the car benefit. This is applied to a set figure which is £18,000 for 2010/11. As with the car benefit, the fuel benefit chargeable to tax on the employee is used to compute the employer's liability to Class IA. The combined effect of the charges makes the provision of free fuel a tax inefficient means of remuneration unless there is high private mileage.

The benefit is proportionately reduced if private fuel is not provided for part of the year. So taking action now to stop providing free fuel will have an immediate impact on the fuel benefit chargeable to tax and NIC.

Please note that if free fuel is provided later in the same tax year there will be a full year's charge.

Business fuel

No charge applies where the employee is solely reimbursed for fuel for business travel.

HMRC have published guidelines on fuel only mileage rates for employer provided cars. The advisory rates are not binding and an employer may be able to agree higher rates with HMRC via a dispensation, perhaps where employees need to use particular types of car such as 4x4s to cover rough terrain. Employers can adopt the rates in the following table but may pay lower rates if they choose.

	PETROL			DIESEL	
	1400cc or less	1401 to 2000cc	Over 2000cc	Up to 2000cc	Over 2000cc
From 1 July to 30 November 2009	10p	12p	18p	10p	13p
From 1 December 2009 to 31 May 2010	11p	14p	20p	11p	14p
From 1 June 2010 onwards	12p	15p	21p	11p	16p

Employees use of cars

There is also a statutory system of tax and NIC free mileage rates for business journeys in employees' own vehicles.

The statutory rates are:

	Rate per mile
Up to 10,000 miles	40p
Over 10,000 miles	25p

Employers can pay up to the statutory amount without generating a tax or NIC charge. Payments made by employers are referred to as 'mileage allowance payments'. Where employers pay less than the statutory rate (or make no payment at all) employees can claim tax relief on the difference between any payment received and the statutory rate.

Continued >>>

How we can help

We can provide advice on such matters as:

- whether a car should be provided to an employee or a private car used for business mileage
- whether employee contributions are tax efficient
- whether private fuel should be supplied with the car.

Please contact us for more detailed advice.

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