

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 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 tables for 2008/09 and 2009/10 are set out below.

2008/09 and 2009/10	
CO ₂ emissions in grams per kilometre	% of car's price taxed
120 or below	10
121 to 135*	15
140	16
145	17
150	18
155	19
160	20
165	21
170	22
175	23
180	24
185	25
190	26
195	27
200	28
205	29
210	30
215	31
220	32
225	33
230	34
235	35

*The lower threshold CO₂ emissions figure will be reduced to 130g/km for 2010/11 and to 125g/km for 2011/12.

Examples

Jane was provided with a new company car, a Mercedes CLK 430, on 6 April 2008. 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 2008/09 and later years will be
 $£50,000 \times 35\% = \underline{£17,500}$

Phil has a company car, a BMW 318i, which had a list price of £21,000 when it was provided new on 6 April 2008. 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 2008/09 and 2009/10 is:
 $£21,000 \times 25\% = \underline{£5,250}$

If Phil continues to drive the same car his benefit will increase to 26% of list price for 2010/11 and 27% 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 or subsequently made available (unless they have a list price of less than £100).

Continued >>>

- 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 may reduce the list price.

Employer's Class 1A national insurance contributions

The benefit chargeable to tax on the employee is also used to compute the employer's liability to Class 1A.

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%

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 £16,900 for 2008/09. As with the car benefit, the fuel benefit chargeable to tax on the employee is used to compute the employer's liability to Class 1A. 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 petrol 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 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, 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 31 December 2008	12p	15p	21p	13p	17p
1 January to 30 June 2009	10p	12p	17p	11p	14p
From 1 July 2009*	10p	12p	18p	10p	13p

* May use from 1 June 2009 if employer's system allows.

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.

How we can help

We can provide advice on such matters as:

- whether a company 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 company car.

Please contact us for more detailed advice.

For information of users: This material is published for the information of clients. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material can be accepted by the authors or the firm.