

ACTIVE PRACTICE UPDATES

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CHARTERED ACCOUNTANTS

TAX IMPLICATIONS OF PROVIDING COMPANY CARS

Does it pay off to provide low or zero-emission cars?

Offering a company car as a benefit can be a valuable and attractive perk to any valued employee.

Unfortunately, it is not necessarily a tax-free perk and it may be liable for PAYE because HMRC considers the private use of a company car to be a benefit-in-kind.

In some cases it can even be quite costly to the employee, especially if the company also pays for the fuel.

Factors including fuel type, carbon dioxide (CO²) emissions, the car manufacturer and model, and how long the car is available in the tax year will all affect the amount of tax the employee has to pay. In addition, the employer may have to pay employer national insurance contributions (NICs).

For those looking to reduce their carbon footprint, providing a zero or low-emission car to a worker can be highly tax-efficient.

To understand why this is the case, you need to understand how the car benefit-in-kind is calculated.

A company car can be any vehicle – car, van or motorcycle – which is provided to the employee for business and private travel. Different rules apply to company vans and are not covered in this article, which is only about company cars.

CALCULATING TAX ON COMPANY CARS

When a car is provided to an employee for private use this is considered a benefit-in-kind by HMRC.

To calculate the amount of tax an employee has to pay on the benefit-in-kind, a taxable value needs to be calculated first.

This depends on various factors determined by the car type and whether it was available to the employee for the whole tax year.

The benefit-in-kind taxable value is essentially the vehicle's list price multiplied by the benefit-in-kind percentage.

If the car was only available part way through the tax year, this is reduced by the number of months the car was unavailable.

For example, a car with a £40,000 list price and benefit-in-kind percentage of 26% available for 10 months of the tax year would have a benefit-in-kind taxable value of £8,667.

LIST PRICES

A car's list price is the manufacturer's list price, including the cost of number plates, delivery charges and VAT, plus any optional extras such as metallic paint.

It should also include any modifications after delivery that cost in excess of £100, such as high-spec wheels or an improved multimedia system.

Even if the modification was made part way through the tax year, the increase to the list price will apply for the whole tax year.

BENEFIT-IN-KIND PERCENTAGE

The benefit-in-kind percentage that applies to a car's list price is set by the Revenue for each tax year, with the 2019/20 maximum set at 37%.

The percentage is determined by the car's CO² emissions and fuel type (electric, petrol or diesel).

The benefit-in-kind percentage for diesel cars, for example, is determined by the real driving emissions 2 (RDE2) standard. If diesel cars do not have the RDE2 standard, an extra 4% can be added up to the 37% maximum.

In contrast, if a diesel car did not have the RDE2 standard, the benefit-in-kind taxable value would have been £10,000 (£40,000 x 30% reduced for two months of non-availability).

REPORTING OBLIGATIONS

Once calculated, the taxable value is reported to HMRC using a P11D form and the employee will pay income tax on the value of the benefit at their top rate.

For example, a £10,000 benefit-in-kind for a higher-rate taxpayer (who pays income tax at 40%) will result in an additional PAYE of £4,000. HMRC collects this by adjusting the employee's tax-free allowance through their PAYE tax code.

This way, the employee pays this tax monthly over the course of the tax year along with the PAYE applicable to their salary, rather than having to pay for the tax in one lump sum. No employee NICs are due on the benefit-in-kind.

The employer is responsible for paying class 1A employer NICs at 13.8% on the value of the benefit-in-kind and this is reported on form P11D(b).

Both forms should be submitted to HMRC by 6 July following the end of the applicable tax year, along with the payment for the class 1A NICs by 19 July by cheque, or 22 July online.

FUTURE COMPANY CAR TAX RATES

Due to recent changes in the way CO² emissions are calculated, working out the benefit-in-kind percentage for the next two years will be slightly more complicated.

Rules introduced on 1 September 2018 have resulted in the CO² emissions figure rising by up to 25% for the same vehicle in some cases.

In response to this, HMRC ditched the previously published benefit-in-kind percentage rates for 2020/21 and created two new benefit-in-kind percentage tables for company car drivers.

One table is for those driving cars registered before 6 April 2020, the other table is for those driving cars registered on or after.

For cars first registered before 6 April 2020, rates will be frozen at 2020/21 levels for the next two tax years.

Most benefit-in-kind percentages for company cars first registered from 6 April 2020 will be reduced by 2% from the equivalent percentage for a car first registered prior to that date.

For 2021/22, it should be reduced by 1% and in 2022/23 there should be no reduction so that the percentage is aligned with those cars first registered before 6 April 2020.

From 2023/24, there will be just one benefit-in-kind percentage table although this has not yet been released.

The Government has said it would "aim to announce appropriate percentages at least two years ahead of implementation to provide certainty for employers, employees and fleet operators".

ZERO AND LOW-EMISSION CARS

In an attempt to boost the sales of zero-emission cars, the benefit-in-kind percentage will reduce from 16% in 2019/20 to 0% from 6 April 2020.

All zero-emission models, regardless of when they were first registered, will have a benefit-in-kind percentage of 0%, rising by 1% over each of the next two tax years.

Low-emission cars (1-50g/km) with an electric mile range of 130 miles or more and first registered after 6 April 2020 will also benefit from these rates.

The reductions in benefit-in-kind percentage for zero and low-emission cars, coupled with the increased number of models and mileage range on the market, have made such vehicles increasingly attractive as company cars – both to employers and employees.

For example, a car with a list price of £40,000 which has CO² emissions of 160g/km registered before 6 April 2020 will have a benefit-in-kind percentage of 37% from that point forward.

This would give a taxable benefit value of £14,800 resulting in additional PAYE for a higher-rate taxpayer of £5,920 and class 1A NICs of £2,042.

In contrast, a zero-emission car with the same list price would not attract any additional PAYE for the employee or employer NICs, with the benefit of doing your bit for the environment.

With savings like this, it is easy to see why many employees and employers are making the switch to electric.

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