

Car

This factsheet is designed to explain the tax treatment of company cars and the associated implications of this.

When considering a company car you need to take into account the employer and the employee implications, these are explained as follows:

Employer Implications:

- 1) When purchasing a new car, VAT is not reclaimable; if you purchase a second hand car then VAT is not normally charged, however, if it is then the VAT is reclaimable
- 2) If a car is obtained under a lease contract then VAT is normally chargeable on the monthly cost. If you are on the flat rate VAT scheme then none of this can be reclaimed, if you are on the standard VAT scheme then only 50% of the VAT can be claimed. VAT charged on any maintenance portion of the lease can be reclaimed in full if clearly identifiable (standard VAT scheme only)
- 3) The tax treatment (i.e. the benefit in kind value) is not dependant on whether the car is leased or purchased outright; however, the Corporation Tax treatment does vary depending on how the car is obtained (see points 4 and 5)
- 4) If the car is purchased outright (or on finance) then the Corporation Tax relief is as follows:
 - a. Cars with emissions up to 110g/km 100% in first year
 - b. Cars with emissions between 111g/km and 160g/km 20% per year (reducing balance)
 - c. Cars with emissions over 160g/km 10% per year (reducing balance)
- 5) If the car is leased or on contract hire the Corporation Tax relief is as follows:
 - a. Cars with emissions up to 160g/km 100% of lease cost
 - b. Cars with emissions over 160g/km 85% of lease cost
- 6) The employer has to pay 13.8% Class 1A national insurance on the benefit in kind value (a calculation of this is detailed below).

You should note that no balancing allowances are given if the car is sold for a tax loss, however, a balancing charge may apply if the car is sold for a tax profit and, because of this, it is normally more tax efficient to lease the car rather than purchasing it outright, unless the car has emissions up to 110g/km.



Employee Implications:

- 1) The employee will be in receipt of a benefit in kind and as such will incur additional tax at their marginal rate. In effect the benefit in kind is treated as salary and taxed as such
- 2) The benefit in kind will use up part of their basic rate band and as such will mean less dividends can be taken that are effectively tax free
- 3) The employee will no longer be able to claim mileage at the tax free rates of 45ppm/25ppm. They may, however, be able to claim a reduced rate if fuel is not provided (see below)

Calculating the Benefit in Kind:

The benefit in kind value is based on the list price of the car when new (including optional extras), the CO2 emissions and the fuel type. To calculate the benefit in kind you follow 4 simple steps:

- 1) Look at the car's CO2 emissions and deduct 120 (unless CO2 emissions are below 121, see below)
- 2) Divide the answer by 5 and round down to the nearest whole percentage
- 3) Add on 15% (18% if diesel) to give you the car benefit percentage, note the maximum this can be is 35%
- 4) Multiply the list price (including optional extras) by the calculated percentage to give the benefit value.

Low CO2 Emission Cars:

A car is classed as 'low emission', for this purpose, if its emissions are exactly 120g/km or below. If this is the case the following benefit percentages apply:

Emissions	Car benefit percentage
0 g/km	0%
1 - 75 g/km	5%
76 - 99 g/km	10%
100 - 104 g/km	11%
105 - 109 g/km	12%
110 - 114 g/km	13%
115 - 120 g/km	14%
121 - 125 g/km	15%

There will be a 3% premium added to the percentage if the car is a diesel.

Calculating the Fuel Benefit:

If fuel is provided for private motoring there is an additional benefit in kind which is calculated as the car benefit percentage (as above) multiplied by the fuel base cost, which for 2012/13 is £20,200

This taxable benefit applies unless all fuel provided was for business use or the employee reimburses all of the cost of private fuel, part reimbursement of private fuel does not reduce the fuel benefit value.

Example:

Mr Bloggs owns ABC Limited and decided to provide himself with a company car. He chooses to provide a petrol car with CO2 emissions of 212g/km and a list price of £22,000 (including extras); fuel is provided for private use. His benefit in kind is calculated as follows:

CO2 emissions of 212 - 120 = 92 / 5 = 18.4 rounded down to 18%

Add 17% to 15% would give a benefit percentage of 33%

List price including extras is

£22,000 x 33% gives a car benefit of £ 7,260

Fuel base cost is

£20,200 x 33% gives a fuel benefit of £6,666

Total benefit in kind £13,926

This would be assessable on Mr Bloggs' personal tax return each year and taxed at his marginal rate. Assuming he is a basic rate tax payer (for salary only) he will pay an additional £2,785 in tax each year; he will also pay an additional £3,133 in tax if he had dividends that were up to or above the high rate threshold before taking into account this additional benefit in kind.

HMRC may also amend his tax code to collect the tax due on the benefit in kind via his salary, so in this example, the tax code would be changed to K582.

ABC Limited would have to declare the company car on Mr Bloggs' P11d each year and would have to pay employer's NI at a rate of 13.8% of the benefit in kind, this would equate to £1,921.79.

Conclusion

Generally company cars are not tax efficient for owner managed companies i.e. where the recipient of the company car is also the sole shareholder, as the same person effectively ends up paying both the employee and employer taxes.

Normally the only time a company car is tax efficient is if you are an employee of a company you do not hold shares in or if the car is particularly friendly to the environment i.e. low emissions and, as such, Nixon Williams' advice is normally to avoid company cars.

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