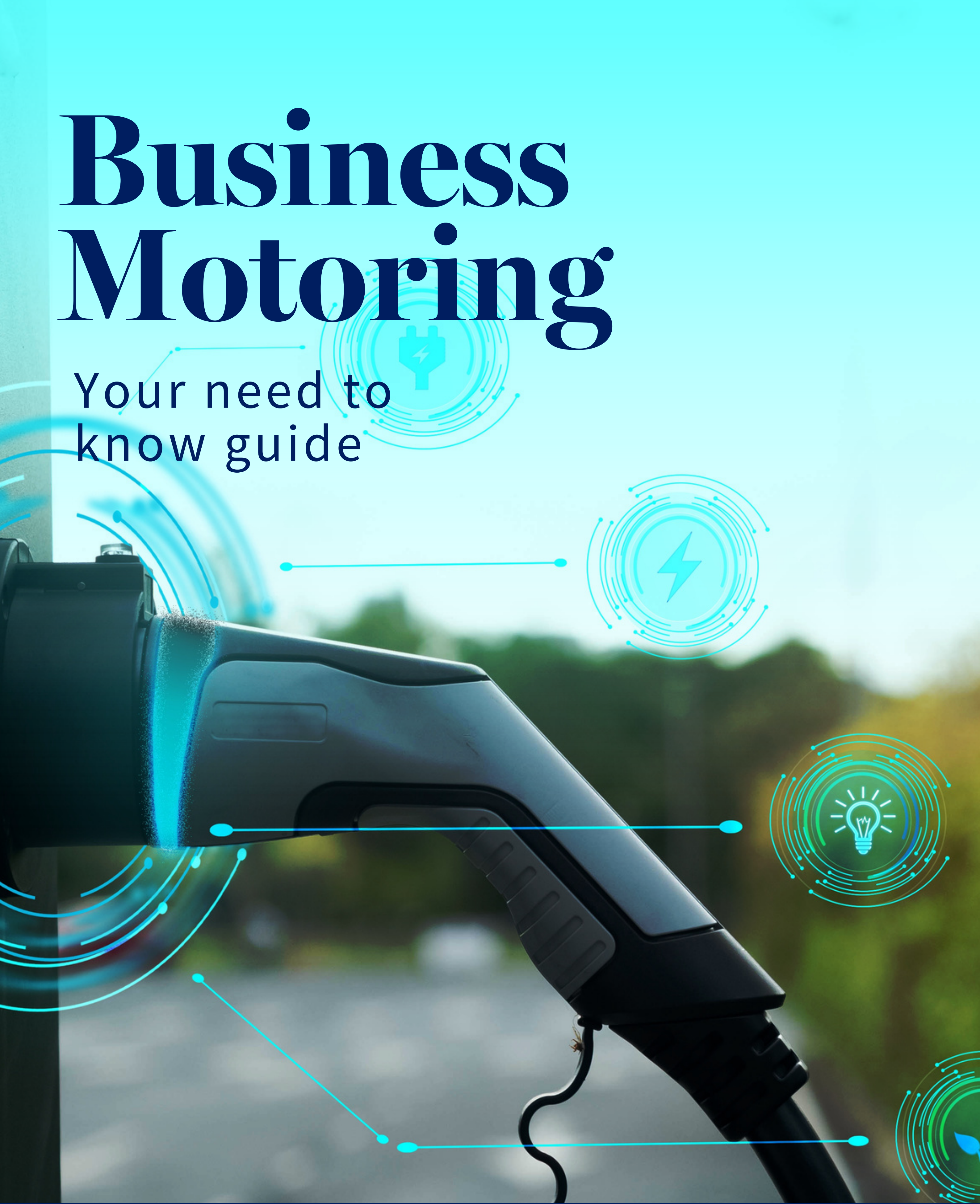
Business Motoring

Your need to know guide



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CHARTERED ACCOUNTANTS

Helping you to organise your business motoring in the most tax-efficient way.

Acquiring a vehicle

With changes to company car rules now taking effect, many firms could see their motoring costs rise significantly over the coming years. Add to that the fact that many businesses are already feeling the squeeze now from the increasing cost of fuel. With this in mind, it is important to organise your business motoring in the most tax-efficient way possible. For businesses looking to acquire a vehicle, There are three principal options.

	Buy the vehicle outright	Hire Purchase (HP)	Contract Hire/PCP/Leasing
✓	The vehicle is yours to keep and to do whatever you like with. You'll also pay less interest than say, a Hire Purchase lease, so you'll pay less over all.	Financing a company vehicle using HP will free up your cash flow and allow you a more expensive vehicle than buying outright.	Lower impact on cashflow as smaller, regular monthly repayments allow you to budget more effectively. Vehicle maintenance is also included in many contracts.
✗	Introducing vehicles to your business by buying outright will affect your cashflow and it's unlikely that you'll recover the full cost if you decide to sell it.	Subject to interest rates, and you can't sell the vehicle without permission until fully paid. Some providers may charge an 'option to purchase' fee at the end of the term.	You'll never own the vehicle, so won't be able to sell it at the end of the agreement. There are also mileage and usage restrictions which can apply.

The tax treatment

Where vehicles are purchased outright or financed through hire purchase, the accounting treatment is to capitalise the asset and to write off the cost over the useful business life as a deduction against profits.

A tax distinction is made for all businesses between a normal car and other forms of commercial vehicles, including vans, lorries and some specialist forms of car, such as a driving school car or a taxi. Generally, cars only qualify for a writing down allowance (WDA) of 18% or 6%. For purchases from April 2021, the CO_2 emissions limit for 18% WDA is 50 g/km.

Cars with emissions in excess of 50 g/km qualify for an annual WDA of 6%. New cars with zero emissions qualify for a 100% first year allowance. Other commercial vehicles may qualify for an immediate tax write off.

Finance leased assets will generally be included in the business accounts as fixed assets and depreciated over the useful business life, but as these vehicles do not qualify as a purchase at the outset, the expenditure does not normally qualify for capital allowances.

The tax relief for both contract hire and finance leases is based on the amounts that are charged to the profit and loss account. For finance leases this will be depreciation, interest and finance charges. For contract hire, the lease payments on operating leases are treated like rent and are deductible against profits.

A disallowance of 15% applies for cars with CO_2 emissions which exceed 50 g/km. If the car was bought prior to 1 April 2021 the emissions limit is 110g/km.

Who owns the car?

Sole traders and partners

The tax cost of private motoring is generally calculated on a case-by-case basis, taking into account the actual private and business mileage to identify the proportion of the cost of running the car which is not a deductible expense.

The proportion of costs attributable to business motoring is tax-deductible, so qualifies for relief against both tax and Class 4 national insurance contributions (NICs).

Where you are in business on your own and use a vehicle, irrespective of whether it is a car or a van, the business will only be able to claim the business portion of any allowances. This applies to capital allowances, rental and lease costs, and other running costs, such as servicing, fuel etc.

Rather than claiming the actual deductions for purchasing, maintaining and running a motor vehicle or motorcycle, businesses can calculate allowable expenditure using a fixed rate based on mileage.

Directors and company cars

Where the company owns the car, all the running costs are deductible against profits but you, as a director, will pay tax on a benefit-in-kind (BiK). If any fuel for private use is provided by the company, you will be liable for another BiK.

Employees

The same tax issues apply to employees, irrespective of the form of business structure (sole trader, partnership or company). For the employer, taxable benefits on the director or employee attract 13.8% Class 1A NICs.

Who pays for the fuel?

As fuel will be used for both private and business journeys, a system needs to be in place so as to avoid the taxable benefit on free fuel. As the taxable benefit is high, in most cases it is better for the employer to pay only for the business mileage.

One method that can be used is for the employee to pay for all the fuel and claim a mileage allowance from their employer for business travel. The private fuel must be repaid in full for the BiK charge to be avoided – a partial repayment will not suffice.

HMRC publishes rates which can be used to reimburse employees tax-free for business miles that they travel in an employer -provided car.

The cost of the benefits

Car Benefit

Where a business provides an employee or director with a company car that is available for personal use, tax is payable on the value of the benefit, with the employer paying national insurance at 13.8%.

Company cars are taxed as a BiK by multiplying the list price of the car, including most accessories, by the 'appropriate percentage'. This percentage is set by reference to the car's fuel type and level of CO_2 emissions. Different percentages apply depending on when the car was registered. This reflects the differences between the new Worldwide harmonised Light vehicle Test Procedure (WLTP) which is introduced for cars registered from 6 April 2020, and the New European Driving Cycle (NEDC) test it is replacing.

In addition, the government has reduced the percentages which apply to lower emissions cars and introduced new performance-related bands for hybrid vehicles with emissions up to 50 g/km depending on how far the hybrid vehicle can travel under electric power.

This means that BiK rates will range between 2% and 37% in 2023/24.

A 4% surcharge is added to the appropriate percentage for cars propelled solely by diesel (unless the car is registered on or after 1 September 2017 and meets the Euro 6d emissions standard). The maximum fuel rate remains at 37%.

If you are considering electric or hybrid vehicles there are a number of benefits to both you and your employees. Zero emission cars are eligible for 100% deduction for corporation tax purposes in the year of the acquisition.

Find out more about the benefits of green transport later in this guide.

Fuel benefit

Where fuel for private use is provided by an employer, the employer is liable for Class 1A NICs, and the employee for tax on the full benefit. This is calculated by applying the appropriate percentage to the fixed car fuel benefit charge, which is currently set at £27,800 for 2023/24 (£25,300 in 2022/23).

Where VAT is to be reclaimed on fuel for private use, the employer has to account for output tax, which may be calculated under the optional VAT flat rate valuation rules.

Company vans

Have you considered a company van? The taxable benefit for the unrestricted use of company vans for 2023/24 is £3,960, plus a further £757 of taxable benefit if fuel is provided by the employer for private travel. From April 2021 zero-emission vans will not give rise to a taxable benefit.

There is no benefit charge where the private use of the van satisfies ‘restricted private use conditions’ throughout the tax year.

When is a van 'not a van'?

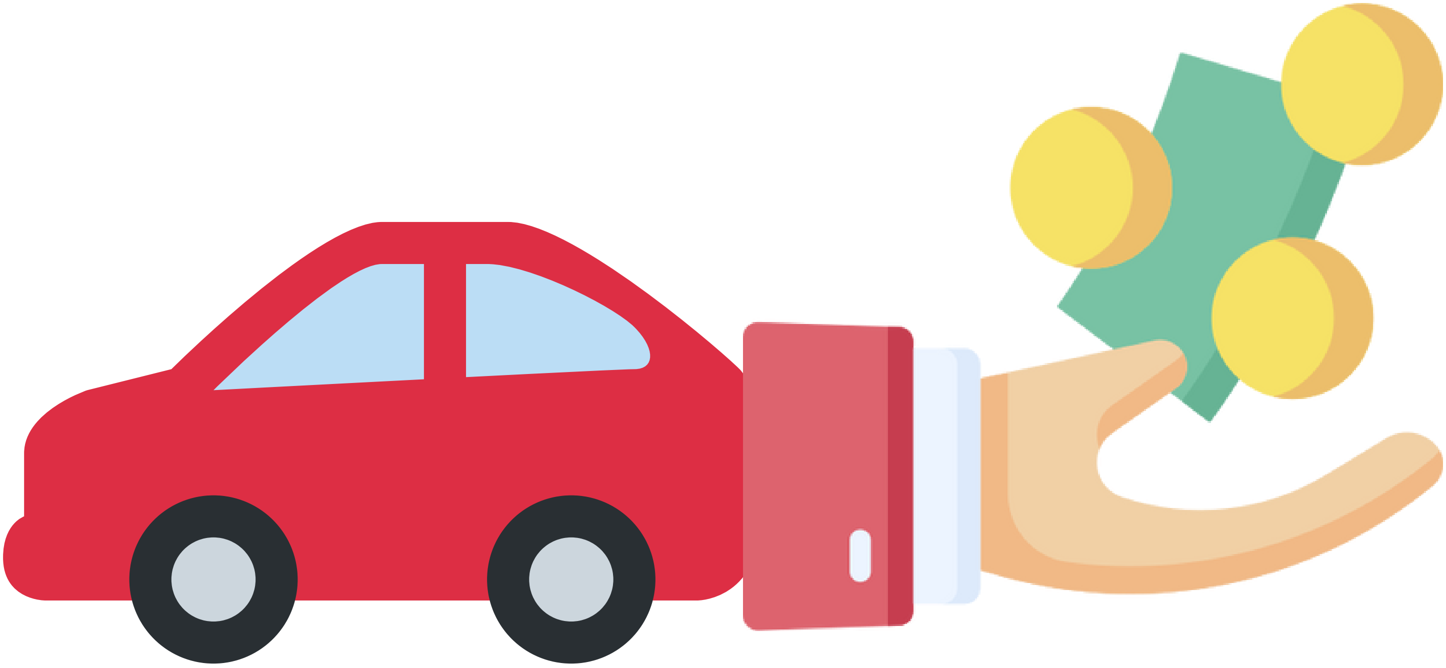
You would think it would be quite straightforward but in 2020, a long running case concerning whether crew-cab vehicles should be treated as cars or vans for company benefit purposes was concluded in HMRC’s favour with potentially significant implications for businesses and staff that use these types of vehicles.

At the core of the Coca-Cola case was the definition of a goods vehicle which is “a vehicle of a construction primarily suited for the conveyance of goods or burden”. The Court of Appeal ruled in the case that if the vehicle is equally suitable to carrying either goods or people, it fails “to be primarily suited for any purpose” and therefore defaults to being treated as a car for the purpose of benefit in kind (BIK).

The binding decision at the Court of Appeal means that P11D’s will need to reflect the outcome of the case very carefully (subject to any Appeal to the Supreme Court).

This will not simply be a case of reviewing those van benefits already being declared to HMRC, as it may also affect ‘vans’ that have historically not been considered a benefit as they are simply taken home by employees overnight and used for commuting.

It’s important for employers to review their fleet and fuel provision for any crew-cab vehicles and consider their options carefully and any businesses looking to buy a crew-cab vehicle should also be aware of the implications for Income Tax.



Salary Sacrifice or Optional Remuneration Agreements

Previously, it was common for employees to enter into a salary sacrifice arrangement, whereby they receive a benefit instead of cash from their employers. This arrangement is now called an optional remuneration agreement (OPRA). In the case of cars, the BiK would ideally be less than the cash foregone and the corresponding income tax and NICs thus saved. However, following recent changes in the rules, income tax is charged on the higher of the benefit or the cash foregone.

There are some exemptions to the OPRA rules including for fully electric or plug-in hybrid vehicles that produce less than 75g/km of CO_2. This exemption makes a salary sacrifice arrangement a cost effective way of driving an EV.

It is worth remembering that any benefits from a salary sacrifice scheme, mean that the employee's take-home pay is reduced and may affect things such as borrowing capacity for a mortgage or maternity pay.

Tax Pointers

Records and returns

If you are a sole trader or a partner, you need to record motoring expenses and mileage for the purpose of claiming tax reliefs for these costs. However, if you are the owner of a limited company or of a business providing one or more company cars, you must also comply with the reporting requirements of HMRC.

You must give notice when a company car is first provided to an employee or director, report certain changes and annually report the taxable benefit(s).

A form P46 (Car) must be filed quarterly (this can also be done online), reporting all relevant company car changes. A form P11D, reporting all benefits and expenses payments not covered by statutory exemption, must be filed no later than the 6 July following the end of the tax year.

The same deadline applies for providing a copy to the employee or director, while the employers' national insurance payable on the benefit is due by 19 July.

Employees and directors using their own cars

In many cases, business travel will be undertaken by employees and directors using their own vehicles. HMRC has approved mileage allowance payments which can be paid by employers to reimburse the cost of such usage, and payments at these rates will be accepted for all tax purposes:

Vehicle	First 10,000 miles	Thereafter
Car or van	45p	25p
Motorcycle	24p	24p
Bicycle	20p	20p

The pros and cons of company cars

Pros

- great incentive in recruitment process;
- essential tools for your business;
- control over company image and costs;
- can be offered using a salary sacrifice scheme;
- peace of mind for employees.

Cons

- paperwork;
- fleet management;
- capital locked into the car fleet;
- cost of finance;
- increased liability;
- increasing tax and NIC costs.

Improve your 'green' credentials

Switching to green transport could provide more of a cost benefit than you would think. Yes, there will be a significant upfront cost but with the range of tax saving incentives, it could be the perfect time to look at your company vehicles. Add to that the rapidly rising cost of fuel, those savings could be even higher.

Apart from the obvious reduction in fuel costs there are a range of other benefits associated with electric vehicles. These include:

- Reduced Benefit in Kind (BIK) bands for electric vehicles
- National Insurance savings
- Exemptions from Vehicle Excise Duty (VED)
- Capital allowances

As employees are looking more closely at the benefits that employers can offer, and with a more competitive recruitment market than ever before, did you know that you can provide electricity at or near your workplace to employees who own their own electric cars without a benefit arising, provided this is available to all employees?

If an employer decides to install a charge point at an employee's home, there is no additional Benefit In Kind (BIK) tax on the basis it is associated with the provision of a relevant Company Car. To top it off, fully electric cars are exempt from both VED and the ‘expensive car’ supplement until 31 March 2025.

Electric vans are also zero-rated when it comes to VED – for now anyway. With the increasing number of congestion zones being bought into city centres, electric vans are excluded from the charges. Don’t forget by using an electric van, you will pay zero tax thanks to the BIK.

Businesses can offset the cost of vehicles purchased through capital allowances claims. From April 2021 new zero emission cars are eligible for 100% deduction for corporation tax purposes in the year of acquisition.

For information of users

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