



# Business Motoring

Your need to  
know guide



**Forrester Boyd**  
CHARTERED ACCOUNTANTS



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



# Acquiring a vehicle

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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, the three principal options are:

- outright purchase, possibly funded by a loan or overdraft;
- hire purchase; and
- contract hire/personal contract purchase/finance leasing.

The decision as to which is appropriate will need to take into account a range of factors, including the availability of cash, car ownership and the VAT situation.



# 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<sub>2</sub> 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<sub>2</sub> emissions which exceed 50 g/km.

# Who owns the car?

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## 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

Employees and directors pay tax on the provision of a company car, as well as on the provision of fuel for private mileage. Employers pay Class 1A NICs at 13.8% on the same amount.

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 CO2 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 2022/23.

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%.



## 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 £25,300 for 2022/23 (£24,600 in 2021/22).

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 2022/23 is £3,600, plus a further £688 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.

## 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.

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.



# Tax Pointers

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## 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

- essential tools for your business;
- control over company image and costs;
- peace of mind for employees.

### Cons

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

# Improve your 'green' credentials

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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, now 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
- Government grants
- National Insurance savings
- Exemptions from Vehicle Excise Duty (VED)

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 brought 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.



Through the Workplace Charging Scheme (WCS), businesses are offered financial support towards the up-front purchase and installation costs of electric charging points. A business can claim support for up to 40 EV chargers, with grants of up to 75% of the purchase and installation costs, to a maximum of £350 per unit. Where an employee owns or leases an electric vehicle, they are also entitled to a grant through the Electric Vehicle Homecharge Scheme (EVHS).

Electric bikes could also be a great option for employees and help to encourage a culture of health and wellbeing. An electric bike could qualify for the cycle to work scheme as long as it doesn't have a motor-assisted speed exceeding 25km/h and the electric motor is less than 250 watts in power. The scheme allows employees to pay for a cycle by way of a deduction from their gross salary, thereby saving tax and NI.

An employee could also exchange part of their salary for a non-cash benefit, such as a company vehicle through a salary sacrifice scheme. For vehicles that are fully electric or plug-in hybrid that produce less than 75g/km of CO<sub>2</sub>, salary sacrifice offers a cost-effective way of driving an EV. Through a salary sacrifice scheme, a single monthly payment is taken that covers leasing, maintenance and insurance of an eligible EV. This amount is taken from the employee's salary before tax and NIC meaning both the employee and the employer save money.

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. Prior to April 2021 new cars with CO<sub>2</sub> emissions of 50g/km or less qualified for the 100% deduction.

To encourage the adoption of electric vehicles in the UK, the government has introduced a plug-in grant. This is now restricted to £1,500 for a eligible plug-in hybrid car or van where it costs less than £32,000 including VAT and delivery charges.

**Read our [Green Motoring](#) guide for more information on this topic.**



## For information of users

This guide 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.

Date of publication: April 2022



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