

expense, and the employee sets the tax-free receipt against the cost of running the car. Usually the employee is still worse off, so the employer – who saves a great deal by not having to pay for the car – may want to increase other parts of the package to compensate.

The owner's car

If you are a sole trader or a partner, the tax rules are quite different – you aren't treated as having a "company car". You have to estimate the proportion of business and private use – and be able to justify it if HM Revenue & Customs ask – and claim only that percentage of your motoring expenses.

Don't forget the VAT!

As if all of that wasn't enough, the VAT rules on cars are an added complication. In general, you can't claim back any of the VAT on buying a car which is available for private use, but you can claim back half the VAT on leasing one. You can claim back all the VAT on servicing and fuel, but if fuel is then made available for private use, you have to account for a flat-rate charge depending on the CO₂ rating.

And if you pay mileage allowances, you can – if you follow the rules – claim back a little bit of VAT on them as well!

How we can help

The rules on business motoring are complicated, and there are an almost infinite variety of cars to apply them to. We are here to help advise you on getting the tax treatment right in your particular circumstances, and on ways of reducing the tax charge by making careful choices. We can crunch the numbers for you so you know how much money is involved.

Don't let the taxman drive you round the bend!

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The information contained in this report is intended for guidance only. We recommend that you seek specific, detailed advice before acting on any of the matters contained herein.

Business Motoring



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Business Motoring



RIP “Mondeo man”?

Traditionally the company car was a tool of the job but also a “perk” which was worth having – the employee had the benefit of the car without having to worry about the capital cost or the bills.

In recent years, the tax charges on company cars have risen sharply, partly to meet the Government’s green agenda. It may no longer be cheaper to let the boss provide a car. It’s certainly worth looking at the numbers carefully and considering whether there are cheaper ways of achieving the same result.

Two sides of the coin

There are many different rules and tax charges on company cars, some of them affecting the employer – who is paying the bills – and some affecting the employee, who is charged to income tax on the “benefit in kind” of having the car made available.

To be absolutely sure that you have the best possible solution, you have to crunch through all the numbers from both sides and see what the overall result is (or get a friendly accountant to do it for you!). This leaflet explains some of the general principles, but it can’t cover all the different permutations.

The driver’s seat

The tax charge for an employee is based on the manufacturer’s list price of the car when new – not what the employer paid for it. This means that you get an unfairly high charge on a second-hand car.

The second element in the calculation is the carbon dioxide emissions rating of the car. If it’s between

76g/km and 120g/km, the tax charge is on 10% of the list price (13% for diesel). If it’s more than that, the charge ranges from 15% to a maximum of 35% at 230g/km.

If the employer also pays for any fuel to be used for private motoring, the same percentage is applied to a set figure of £18,000.

Any regular contributions which the employee has to pay to use the car are deducted from the taxable benefit.

Examples

Gina is given a Range Rover with a list price of £50,000 and a CO₂ rating of 352g/km. Her employer pays for all fuel. She is a 40% taxpayer.

She will pay 40% income tax on a benefit of £17,500 for the car and £6,300 for the fuel – a total tax cost of £9,520 a year.

Jenny is given a Fiat 500 with a list price of £8,500 and a CO₂ rating of 119g/km. She buys her own fuel and pays £25 a month for the use of the car. She will pay her marginal rate of income tax on a benefit of only £550 a year.

Elementary deductions

The allowances to employers have recently changed. The whole cost of a car can be deducted straight away if its emissions are up to 110g/km. Tax writing down allowances are given at 20% a year for cars rated 111g/km – 160g/km and 10% a year above that.

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The employer can at least deduct the full cost of servicing, insurance and fuel, but will also have to pay Class 1A NIC on the income tax benefits levied on the employee.

Examples

Gina’s employer will write down the Range Rover at 10% a year on whatever was paid for it (probably less than the list price). The full actual cost of fuel and other running expenses is deductible, but Class 1A NIC of 12.8% x £23,800 = £3,046 will also be due.

Jenny’s employer will write down the Fiat at 20% of its cost each year, and the Class 1A NIC is only £70.

Low charge, no charge

If your company car has an emissions rating of 75g/km or less, the benefit is only 5% of the list price. An electric car, with no emissions, is tax-free – on the car and also on the charging of the battery!

Use your own

Where employees need to do some business motoring but the tax costs look steep, it may be better for them to use their own cars and be paid mileage. Records have to be kept to show that only business motoring is reimbursed, but allowances of up to 40p per mile are tax-free for the first 10,000 miles a year, and 25p above that. An extra allowance of 5p per mile can be paid if a business passenger is taken on a business journey.

The tax position is much simpler than for a company car. The employer deducts the mileage allowance as an