

Chartered Accountants & Business Advisers

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## BUSINESS MOTORING: CONSIDERING THE TAX CHANGES



April 2018 saw the introduction of a raft of changes affecting employer-provided cars, and further measures are in the pipeline. From rising benefit rates to new rules on capital allowances, the changes could have a significant impact on employers' motoring costs. Here we outline some of the key areas to consider.

### CHANGES TO BENEFIT-IN-KIND RATES

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 national insurance contributions (NICs) at 13.8% on the same amount.

Company cars are taxed as a benefit-in-kind (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 carbon dioxide (CO<sub>2</sub>) emissions.

The taxable car fuel benefit is calculated by applying the appropriate percentage to the car fuel benefit charge multiplier, which is £23,400 in 2018/19. Reductions may apply where the employee makes a capital contribution towards the cost of the car or pays the equivalent of the benefit, and where an employee reimburses the employer for all private fuel (merely repaying some will not nullify the fuel benefit).

For 2017/18, a reduced rate of 9% applied for vehicles emitting no more than 50 g/km of CO<sub>2</sub>, although as the table shows, from April 2018 the BiK rates have started to increase significantly.

CO <sub>2</sub> emissions (g/km)	Appropriate percentage (%)		
	2017	2018	2019
0 - 50	9	13	16
51 - 75	13	16	19
76 - 94	17	19	22
95 - 99	18	20	23
100 - 104	19	21	24

For every additional 5g thereafter add 1% until the maximum percentage of 37% is reached.

The rises in the appropriate percentages will mean it is more costly for employers to provide company cars in the future. The example below shows the possible implications of the increase for the 2018/19 tax year.

#### Example

David has a company car, a BMW 318i, which had a list price of £21,000 when it was provided new on 6 April 2017. The CO<sub>2</sub> emissions are 117 g/km. (Note: The CO<sub>2</sub> emissions are rounded down to the nearest 5 g/km – in this case 115.)

David's benefit for 2017/18 is: £21,000 x 22% = £4,620. David's benefit will increase for 2018/19 to £5,040, being £21,000 x 24%.

### Electric charging points

However, there is some good news for those employers providing electric charging points, as the government intends to exempt employer-provided electricity from being taxed as a BiK, to apply retrospectively from April 2018. This will apply to electricity provided in workplace charging points for electric or hybrid cars owned by employees.

### The diesel supplement

Changes to the supplement applying to diesel cars have also taken effect from April 2018.

Diesel cars emit less CO<sub>2</sub> than petrol cars and so would be taxed on a lower percentage of the list price than an equivalent petrol car. However, as diesel cars emit greater quantities of air pollutants than petrol cars an additional supplement of 3% of the list price applied to diesel cars in 2017/18, up to a maximum cap of 37%. As announced in the 2017 Autumn Budget, from 6 April 2018 the diesel supplement has risen to 4%, although the maximum fuel rate remains at 37% (unless the car is registered on or after 1 September 2017 and meets the Euro 6d emissions standard).

## Further changes from April 2020

For 2020/21 further changes are set to come into effect, with the introduction of a new range of BiK bands for hybrid vehicles. Appropriate percentages will range from 2%-19% for ultra-low emission vehicles (ULEVs) emitting less than 75 g/km of CO<sub>2</sub> and depending on how far hybrid vehicles can travel under electric power.

Cars with emissions over this amount would see the appropriate percentage set at the lesser of:

- 20%, plus 1% for each 5 g/km by which emissions exceed 75 g/km; and
- 37%.

Those looking to purchase a new vehicle should take these changes into account.

## SALARY SACRIFICE OR OPTIONAL REMUNERATION ARRANGEMENTS

Until 6 April 2017 it was common for employees to enter into a salary sacrifice arrangement, whereby they received 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 NIC thus saved.

However, income tax is now charged on the higher of the benefit or the cash foregone. For existing car benefit arrangements (for cars with a CO<sub>2</sub> emission level above 75 g/km) in place as at 6 April 2017, the change will not take effect until 6 April 2021 or such time as the arrangement is changed, whichever is earliest.

## NEW RULES FOR CAPITAL ALLOWANCES AND CARS

Under the capital allowances system, expenditure on cars either enters the main rate pool or the special rate pool, depending on the vehicle's CO<sub>2</sub> emissions. In 2017/18 expenditure on cars with CO<sub>2</sub> emissions not exceeding 130 g/km was allocated to the main pool, attracting a writing down allowance (WDA) of 18%. Meanwhile, expenditure on cars with emissions over 130 g/km entered the special rate pool, attracting an 8% WDA.

However, changes have now been made to the tax relief for business expenditure on cars for expenditure incurred on or after 1 April 2018. Under the new rules, expenditure on cars with CO<sub>2</sub> emissions not exceeding 110 g/km will be pooled in the main pool, while those with emissions over 110 g/km will enter the special rate pool.

In addition, from 1 April 2018 the 100% first year allowance for expenditure on cars has been reduced from cars with CO<sub>2</sub> emissions of 75 g/km or less, to just 50 g/km.

Note that the reduction in the emissions threshold from 130 g/km to 110 g/km does not apply to expenditure incurred under car hire contracts entered into before 1 April 2018 (corporation tax) or 6 April 2018 (income tax) for the purposes of the lease rental restriction.

## PLANNING AHEAD FOR TAX SAVINGS

As we have outlined above, the cost of providing a company car is likely to increase significantly for 2018 – and beyond. However, with many rates set in advance, employers are in a position to plan ahead to anticipate any future cost increases. As a result, employers may want to review their business motoring needs to identify any opportunities where it may be possible to save tax.

Here we suggest some key strategies to consider.

## Go green!

The tax regime is designed to encourage the take-up of low and zero emission vehicles. With future tax rises for petrol and diesel cars in the pipeline, now may be the ideal time to consider investing in an electric/plug-in/hydrogen vehicle. Such vehicles may benefit from tax incentives and government grants, helping to reduce the overall cost for employers.

## Company vans

Have you considered a company van as an alternative to a company car? The taxable benefit for the unrestricted use of company vans is £3,350 in 2018/19 (£3,230 in 2017/18), plus a further £633 (£610 in 2017/18) of taxable benefit if fuel is provided by the employer for private travel. A 'van' for this purpose could include some extended cab pick-ups, complete with off-road styling, air conditioning and leather upholstery!

There is no benefit charge where the private use of the van satisfies 'restricted private use conditions' throughout the tax year. There is also a reduced charge for electric vans. In addition there are capital allowance and VAT benefits to operating vans/commercial vehicles over cars.

## Consider the timing of acquisitions

With further tax changes ahead, it is worth giving consideration to the timing of any purchases. Please speak to us before taking action.

## Employees' use of own car

There is a statutory system of tax and NIC-free mileage rates for business journeys in employees' own vehicles. Therefore, if your employees' business mileage is high, it could prove more beneficial to pay employees for business mileage in their own vehicles at the statutory mileage rates.

## Don't forget to reclaim input VAT on petrol

Do you already reimburse employees who use their own vehicles and pay for their own fuel at the HMRC approved mileage rates? If so, then don't forget to reclaim the VAT applicable to the deemed fuel element of the mileage rate. You will need to ensure each employee submits a valid VAT receipt in support of the claim.

**We can review your business motoring requirements to help keep your tax liability to a minimum. We can also help you to plan for the potential increases in costs, so do contact us for further information and advice.**