

# Cars for Employees

The current regime for taxing employer provided cars (commonly referred to as company cars) is intended:

- to encourage manufacturers to produce cars which are more environmentally friendly and
- to give employee drivers and their employers a tax incentive to choose more fuel-efficient and environmentally friendly vehicles.

We set out below the main areas of importance. Please do not hesitate to contact us if you require further information.

## The rules

Employer provided cars are taxed by reference to the list price of the car but graduated according to the level of its carbon dioxide (CO<sub>2</sub>) emissions.

## Percentage charges

The percentage charge for the majority of cars is between 10% and 35%. The emissions table for 2014/15 is set out below.

2014/15	
CO <sub>2</sub> emissions in grams per kilometre (round down to nearest 5gm/km except *)	% of car's price taxed
0*	0
75 or below*	5
76 – 94*	11
95	12
100	13
105	14
110	15
115	16
120	17
For every additional 5g thereafter add 1%	
210 and above	35 (max)

## Examples

Jane was provided with a new company car, a Mercedes CLK 430, on 6 April 2014. The list price is £50,000. The CO<sub>2</sub> emissions are 240 gm/km.

Jane's benefit in 2014/15 and later years will be £50,000 x 35% = £17,500

Phil has a company car, a BMW 318i, which had a list price of £21,000 when it was provided new on 6 April 2014. The CO<sub>2</sub> emissions are 117 grams per kilometre. Note: The CO<sub>2</sub> emissions are rounded down to the nearest 5 grams per kilometre - in this case 115.

Phil's benefit for 2014/15 is: £21,000 x 16% = £3,360

## Diesels

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, diesel cars emit greater quantities of air pollutants than petrol cars and therefore a supplement of 3% of the list price generally applies to diesel cars. For example, a diesel car that would give rise to a 22% charge on the basis of its CO<sub>2</sub> emissions will instead be charged at 25%. The maximum charge for diesel is capped at 35%.

## Obtaining emissions data

The Vehicle Certification Agency produces a free guide to the fuel consumption and emissions figures of all new cars. It is available on the internet at <http://carfueldata.direct.gov.uk>. These figures are not however necessarily the definitive figures for a particular car. The definitive CO<sub>2</sub> emissions figure for a particular vehicle is recorded on the Vehicle Registration Document (V5).

## The list price

- The list price of a car is the price when it was first registered including delivery, VAT and any accessories provided with the car. Accessories subsequently made available are also included (unless they have a list price of less than £100).
- Employee capital contributions up to £5,000 reduce the list price.

## Employer's Class 1A national insurance contributions

The benefit chargeable to tax on the employee is also used to compute the employer's liability to Class 1A (the rate is currently 13.8%).

## The exceptions

### Imports

Some cars registered after 1 January 1998 may have no approved CO<sub>2</sub> emissions figure, perhaps if they were imported from outside the EC. They too are taxed according to engine size.

Engine size (cc)	% of list price charged to tax
0 - 1400	15%
1401 - 2000	25%
Over 2000	35%

## Private fuel

There is a further tax charge where a company car user is supplied with or allowed to claim reimbursement for fuel for private journeys.

The fuel scale charge is based on the same percentage used to calculate the car benefit. This is applied to a set figure which is £21,700 for 2014/15. As with the car benefit, the fuel benefit chargeable to tax on the employee is used to compute the employer's liability to Class 1A. The combined effect of the charges makes the provision of free fuel a tax inefficient means of remuneration unless there is high private mileage.

The benefit is proportionately reduced if private fuel is not provided for part of the year. So taking action now to stop providing free fuel will have an immediate impact on the fuel benefit chargeable to tax and NIC.

Please note that if free fuel is provided later in the same tax year there will be a full year's charge.

## Business fuel

No charge applies where the employee is solely reimbursed for fuel for business travel.

HMRC have published guidelines on fuel only mileage rates for employer provided cars. The advisory rates are not binding and an employer may be able to agree higher rates with HMRC via a dispensation, perhaps where employees need to use particular types of car such as 4x4s to cover rough terrain. Employers can adopt the rates in the following table but may pay lower rates if they choose.

	PETROL			DIESEL		
	1400cc or less	1401 to 2000cc	Over 2000cc	1600cc or less	1601-2000cc	Over 2000cc
<b>From 1 December 2013</b>	14p	16p	24p	12p	14p	17p

Separate rates are available for cars which run on LPG these can be found on HMRC's website at [http://www.hmrc.gov.uk/cars/advisory\\_fuel\\_current.htm](http://www.hmrc.gov.uk/cars/advisory_fuel_current.htm)

## Employees' use of own car

There is also a statutory system of tax and NIC free mileage rates for business journeys in employees' own vehicles.

The statutory rates are:

	Rate per mile
Up to 10,000 miles	45p
Over 10,000 miles	25p

Employers can pay up to the statutory amount without generating a tax or NIC charge. Payments made by employers are referred to as 'mileage allowance payments'. Where employers pay less than the statutory rate (or make no payment at all) employees can claim tax relief on the difference between any payment received and the statutory rate.

## How we can help

We can provide advice on such matters as:

- whether a car should be provided to an employee or a private car used for business mileage
- whether employee contributions are tax efficient
- whether private fuel should be supplied with the car.

Please contact us for more detailed advice.

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