Michael Steed's AAT blog July 2012

Are cars and vans still tax efficient?

This is one of those perennial questions that we need to ask from time to time, especially as the numbers change with each successive Budget.

The Brits are wedded to their company cars and it never ceases to amaze me that people will put up with high tax charges in order to be seen with a company car!

I'll deal with them in order in this blog – cars first then vans.

CARS

Let's look at income tax, then capital allowances and corporation tax and then, finally, VAT.

As far as income tax is concerned, cars are only taxable on P11D employees; P9D employees are not taxed on cars. But we need to properly measure the £8,500 limit – it includes the cash equivalent of benefits as well as salary and the phrase is "at the rate of £8,500 or more per annum". So this means that you might employ someone late in the tax year and who only earns say £5,000 between February and April 5th, but they would still be a P11D employee that year.

So if you provide a car to a family member who is a P9D employee, then the basic rule says that you will not be taxed on it. You need to be careful about children working in a family business though. Although they may be a P9D employee, there is a bit of legislation that taxes a car given to them on the parent, so it will be subject to a tax charge, even though all up, the child is not a P11D employee (S169, ITEPA 2003).

Let's also be clear about what a car is and is not. It does not include a van or a dual cab pick-up (which is also treated as a van provided that it has a payload of at least 1 metric tonne – this follows the VAT treatment).

Budget 2012 had quite a bit to say about the future of company car taxation, as far as benefits in kind are concerned, and it doesn't look great – especially for green cars.

Have a look at this slide:

Company car tax rates for employees – petrol/EVs 2012 onwards

CO2 emissions (gm/Km)	% applied to list price
0 (EVs)	0 (EVs)
1-75	5
76-99	10
100	11
Additional 5g	Add 1%

Max 35%; diesel 3% supplement

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These are the figures for 2012 onwards, but look at this following slide, which shows that low/zero-emission cars are in for a battering in 2015/16:

Changes to car taxation

- 2012/13 100g/km – 11%, then 1% for every 5g/km over; this falls to 95gm from April 2013
- 2014/15 Cars emitting <95g/km 11% (up from 10%)
- 2015/16 – 0% and 5% rate abolished
  - table starts at 13% up to 94g/km
  - max increases from 35% to 37%
- 2016/17 – diesel addition abolished but all benefits increase by 2%

So, the conclusion is that if you have a company car now, the tax burden is rising and the tax burden on green vehicles is going to rise quite substantially. Having said this, I don't think the Green Lobby has woken up to this yet and when they do, there will be a stink!

One last point about cars is that a director/P11D employee is only taxed on the car if it's made available for that person's use, so a genuine pool car will not be taxable on a director/higher paid employee.

So what about fuel as a benefit?

It's one thing to have a car and quite another to have private fuel paid as well – the tax burden is only worth it for very high private mileage users as the two slide screenshots below show.

The first slide shows a BR taxpayer and a mid range car with 28% from the CO2 emissions.

Remember the emissions number comes from the registration document and we use it in the CO2 scale (changes each year in the Budget – see slide screenshot above) to find the percentage of the list price that we calculate the cash equivalent from.

We then use that calculated percentage to work out the cash equivalent of the fuel benefit. The percentage in the first example is 28% and is at the scale maximum of 35% in the second example.

In both cases we multiply the percentage by the multiplier. This number is given in legislation and has changed in the current tax year from £18,800 to £20,200.

Vauxhall and BR tax

	Private mileage		
	5,000	10,000	15,000
Tax on benefit	£	£	£
2011/12			
£18,800 x 27% x 20%	1,015	1,015	1,015
2012/13			
£20,200 x 28% x 20%	1,131	1,131	1,131
Cost of private fuel			
135p per litre	703	1,056	1,406
140p per litre	729	1,095	1,458
145p per litre	755	1,134	1,510

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The conclusion here is that for fuel at £1.40 per litre, for a 20% taxpayer, you have to be doing around 10,000 private miles for the breakeven to be achieved.

BMW 5 series

	5,000	10,000	15,000
Tax on benefit	£	£	£
2012/13			
£20,200 x 35% x 40%	2,828	2,828	2,828
£20,200 x 35% x 50%	3,535	3,535	3,535
Cost of private fuel			
135p per litre	983	1,477	1,967
140p per litre	1,019	1,532	2,040
145p per litre	1,055	1,587	2,113

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This slide is even worse! For a 40% taxpayer, you'd need to be doing more than 15,000 miles to breakeven. Why pay tax of £2,828 for something that you can buy for around £1,500 (at £1.40 per litre)?

So what about capital allowances?

Let's remind ourselves about something important. Cars do NOT qualify for the Annual Investment Allowance (AIA), but vans do, so vans (and dual cab pickups with a payload of 1 metric tonne) clearly carry a tax advantage here.

However we mustn't forget that some cars will qualify for the 100% Enhanced Capital Allowance (ECA). This is for low emission cars that do not emit more than 110 gms per km driven.

So from a corporate perspective, this is good; a car purchased and written off under an ECA will reduce taxable profits by the same amount, but don't forget that if the car is sold, then the company will be taxed on the "profit" (i.e. the amount the car is sold for above the zero tax value on the company's books).

Combining BIKs and CAs reminds us that we can still send our children to college with a new low CO2 emission car with a low tax hit (don't forget the Class 1A NICs)!

Pooling

Cars with no private use will be pooled and will have a WDA of either 18% or 8%, depending on the Co2 emissions (160gm/km break point). They will not have the benefit of a balancing allowance on sale when sold at a "loss", so you will have to carry the residual value in the pool and write it down at the appropriate rate. Cars with private use continue to be de-pooled and this rule does not apply.

VAT

VAT is not recoverable on a car where there is any measure of private use. This does not apply to a genuine pool car where the input tax is properly recoverable.

Oddly barring private use is possible in a corporate situation, so a company could recover input tax on a car (the Elm Milk case).

There are also the VAT angles on fuel provided. The VAT Act provides that a business that provides fuel for a car will also have to deal with the taxation of private use. The taxpayer has a choice – either to claim all of the input tax on fuel and then to compensate for this by paying over the fuel scale charge in Box 1 and the statistical value in Box 6 (see the HMRC website for the latest rates which change in May every year), or not to claim at all and not have to pay over the charge. There is a third way – meticulous records, to establish an apportionment, but this is a nightmare.

VANS

OK, so now let's shift the focus to vans.

A van or dual cab pickup is only taxable on a P11D employee – measurement as above for the cars. So there is some tax efficiency in giving a van to a P9D employee (most directors can never be P9D employees remember) – also remember the family member rules in S169, ITEPA 2003 – see above.

If private use is genuinely insignificant, then there will be no benefit charge. HMRC has said that occasional visits to the tip are OK, but the weekly shopping is not.

If an employer provides private fuel for an employee who has a van, then there is a flat rate of £550 as a cash equivalent- there is no linkage to CO2 outputs.

Capital allowances

Vans are eligible for the AIA, whereas cars are not eligible, but if a van is sold, then there will be tax charge on the "profit".

VAT

As far as VAT is concerned, there is no input tax block on a van or a dual cab pick up.

VAT Fuel scale charges do not apply to vans.

Conclusion

There's no right and wrong here –there's no single answer –it all depends on the facts and client preferences. I'm pretty clear that when a business is incorporated, it's generally not a good idea to have a car or fuel in the company. This saves admin and tax charges. Just use the AMAP system (45p per mile for each business mile).

This may change as the company grows, but as a starter it works for me on most occasions.