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## Company cars and Tax implications

### Question

Can you explain the tax implications of providing company cars to some of my employees and whether it is tax efficient to provide private fuel with the company car? Also, some of my employees use their own cars for business journeys. Can I reimburse their fuel costs without triggering a tax charge?

### Answer:

The current regime for taxing employer provided cars (commonly referred to as company cars) is intended to encourage car 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 vehicles. 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. The percentage tax charge for cars is between 5% and 35% and the benefit in kind tax charge can therefore vary considerably. For example, if the car has CO<sub>2</sub> emissions of 200, the percentage tax charge which applies to the list price of the car is 30%. A car with CO<sub>2</sub> emissions of 180 has a lower tax charge of 26% applied to the list price.

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 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 a diesel vehicle is capped at 35%.

The list price of a car used in the benefit in kind calculation is the price when it was first registered including delivery, VAT and any accessories provided with the car or subsequently made available (unless they have a list price of less than £100). Employees can make a capital contribution up to £5,000 to reduce the list price used in the calculation.

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 £18,800 for 2011/12. 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 which is chargeable to tax and NIC. No tax charge applies where the employee is only reimbursed for fuel for business travel.

If you supply company cars but only reimburse your employees for fuel used for business journeys HMRC have published guidelines on the rates which can be paid to your employee without incurring a tax charge. The advisory rates are not binding and an employer may be able to agree higher rates with HMRC, perhaps where employees need to use particular types of car such as 4x4s to cover rough terrain. The rates range from 11p to 26p per mile depending on the cc of the vehicle and on whether it is petrol or diesel, with the highest tax free payment of 26p being given to petrol cars exceeding 2000cc.

There is also a statutory system of tax and NIC free mileage rates for business journeys in employees' own vehicles. The statutory rates for 2011/12 are 45p for the first 10,000 miles and 25p for miles in excess of 10,000. Employers can pay up to the statutory amount without generating a tax or NIC charge. 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.

By Feargal McCormack, Managing Partner, FPM Chartered Accountants

Email: [f.mccormack@fpmca.com](mailto:f.mccormack@fpmca.com) Web: [www.fpmca.com](http://www.fpmca.com)

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