



## Employment issues (tax)

# Company Cars

The current regime for taxing company cars has been in place since April 2002. It is intended:

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

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

### The Rules

Company 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 15% and 35%. The emissions table is set out below.

CO <sub>2</sub> emissions in grams per kilometre		% of car's price taxed
2004/05	2005/06 & 2006/07	
145	140	15
150	145	16
155	150	17
160	155	18
165	160	19
170	165	20
175	170	21
180	175	22
185	180	23
190	185	24
195	190	25
200	195	26
205	200	27
210	205	28
215	210	29
220	215	30
225	220	31
230	225	32
235	230	33
240	235	34
245	240	35

If the CO<sub>2</sub> figure doesn't end in a 5 or 0 round down to the nearest 5 grams per kilometre

### Examples

Jane was provided with a new company car, a Mercedes CLK 430, on 6 April 2004. The list price is £50,000. The CO<sub>2</sub> emissions are 281 grams per kilometre. Jane regularly drives 20,000 business miles each year.

Jane's benefit in kind in 2004/05 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 2004. Phil does fewer than 1,000 business miles each year. The CO<sub>2</sub> emissions are 188 grams per kilometre.

Phil's benefit in kind in 2004/05 will be: £21,000 x 23%\* = £4,830

\*rising to 24% in 2005/06 and 2006/07.

Note: The CO<sub>2</sub> emissions are rounded down to the nearest 5 grams per kilometre - in this case 185.

### 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 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%.

The 3% supplement will be waived if the car achieves the clean level of Euro IV standard emissions.

### 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 [www.vcacarfueldata.org.uk](http://www.vcacarfueldata.org.uk) These figures are not however necessarily the definitive figures for a particular car:

- for all cars first registered from 1 March 2001 onwards, the definitive CO<sub>2</sub> emissions figure is recorded on the Vehicle Registration Document (V5)
- for cars first registered between 1 January 1998 and 28 February 2001, the definitive figure is found by going to [www.smm.co.uk](http://www.smm.co.uk) This is a service provided by the Society of Motor Manufacturers and Traders (SMMT).



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### 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 or subsequently made available (unless they have a list price of less than £100)
- the list price is restricted to an upper limit of £80,000
- employee capital contributions up to £5,000 reduce the list price.

### Employer's Class 1A contributions

The benefit chargeable to tax on the employee is also used to compute the employer's liability to Class 1A.

### The Exceptions

#### Cars first registered before 1 January 1998

There is no reliable source of CO<sub>2</sub> emissions data for cars registered before 1 January 1998. Such cars are taxed according to their engine size.

Engine size (cc)	% of list price charged to tax
0 - 1400	15%
1401 - 2000	22%
over 2000	32%

#### 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.

From 6 April 2003 the fuel scale charge is based on the

same percentage used to calculate the car benefit. This is applied to a set figure which for 2004/05 is £14,400. 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 petrol 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.

### Employees' Use of Own Car

A statutory system of tax and NIC free mileage rates for business journeys in employees' own vehicles has been in place since 6 April 2002.

The statutory rates for 2004/05 are:

	Rate per mile
Up to 10,000 miles	40p
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 company 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 company car.

Please contact us for more detailed advice.