

# Company Car

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**From the company point of view,** the car would be treated as an asset for corporation tax purposes and would attract a writing down allowance at 18% or 6%, depending on the emissions, of the cost price annually until fully depreciated.

The 6% writing down allowance would be restricted to the business use element only

Mercedes AMG  
Cost - £50,000  
CO2 - 227



**Should ABC Ltd purchase a company car for £50,000, the tax exposure would be as follows:**

Personal Tax Exposure	7,400
Company Tax Exposure	752
<b>Total Tax Liability for the year</b>	<b>8,152</b>

**See Below Calculations**

In addition, there would be monthly lease payments of say £800 per month which would impact on the company's cashflow.

**Tax Exposure**

**PIID Benefits**

PIID Benefits	18,500
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**Fuel Benefit will also need to be considered if the company is not reimbursed for private miles done.**

**£0.17p per mile.**

**Tax Exposure - ABD LTD**

Class 1A NIC	2,688
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**Motor Car Running Costs - per year**

Fuel - £350 pm	4,200
Insurance - £100 pm	1,200
Servicing - £600	600
	6,000

**Corporation Tax Deduction**

Class 1A NIC	
2,688 x 19%	511

**Motor Car Running Costs**

6000 x 19%	1,140
	1,651

**Capital Allowance - £50,000 x 6%  
Say 50% Private Use**

Class 1A NIC	
1500 x 19%	285
	1,936

**Net TAX Exposure**

Class 1A NIC	2,688
Corporation Tax reduction	1,936

752

Should ABC Ltd purchase a company car for £50,000, the tax exposure would be as follows:

**Should the car be purchased personally,** this would impact on the individual's cash flow as there would be the outlay for the purchase cost and the motor running costs.

For the purposes of this example, we have taken it that the monthly lease payments are posted to the Director's Current Account.

Dividend Tax	3,409
Company Tax Exposure	(1,045)
<b>Total Tax Liability for the year</b>	<b>2,364</b>

#### See below calculations

Monthly lease costs - £800pm	9,600
Motor Car Running Cost - per year	6,000
	15,600

#### Business Car Mileage

10,000x 45p 4,500

4000x 25p 1000 5,500

#### Tax Exposure - ABD LTD

Motor Car Expenses posted to Directors Current Account	15,600
Less: Car Mileage Claim	5,500
<b>Net Amount</b>	<b>10,100</b>
<b>Dividend Tax @33.75%</b>	<b>3,409</b>

#### Tax Exposure - ABD LTD

##### Corporation Tax Deductions

Car Mileage	
Less: Car Mileage Claim	<b>1,045</b>

# Electric Car

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## What is the tax saving on an electric car?

Corporation Tax at 19-25% will be saved on the full purchase cost, as well as a personal tax saving of 8.75% or 33.75%, depending on tax bracket. VAT can only be reclaimed on the purchase in specific situations, which will not be applicable to most businesses.

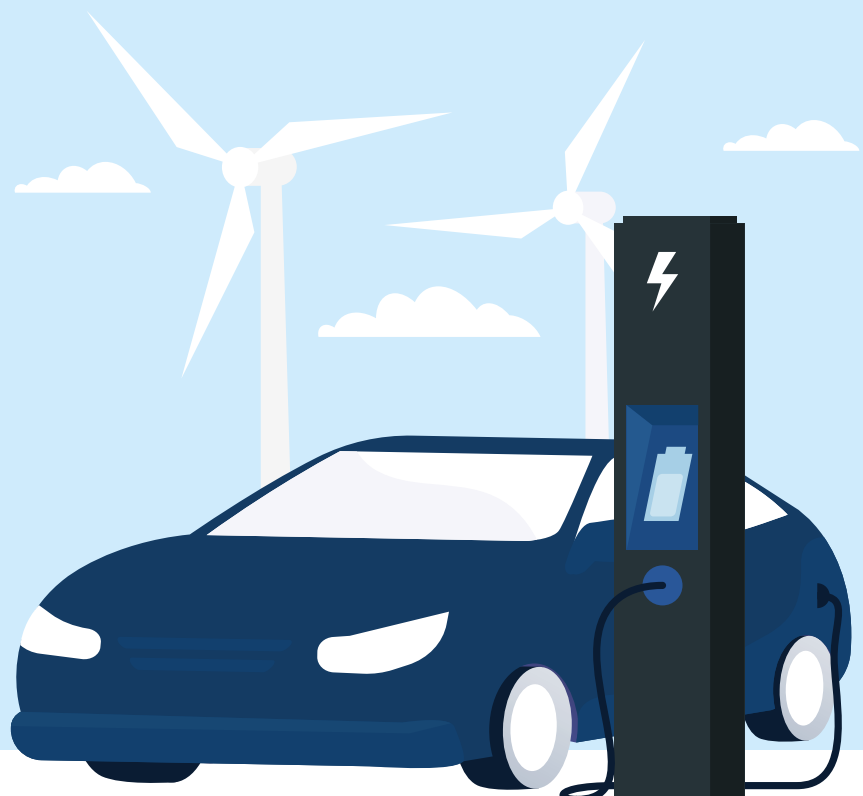
The full claim can only be made on new and unused electric vehicles, second hand vehicles will fall in to the 18% writing down allowance pool.

A director buying a petrol/diesel car personally would have to pay dividend tax to make the money available for the purchase, with no Corporation Tax benefit.

## Can I give my employee an electric car as an employee benefit?

Yes, but there are reporting and taxation implications to consider, for both the employer and employee, including income tax and national insurance.

As the employer, you will need to complete annual P11Ds and pay Class 1A National Insurance.



# Claiming the VAT back



## **Buying a new car**

You may be able to reclaim all the VAT on a new car if you use it only for business.

The car must not be available for private use, and you must be able to show that it is not, for example it's specified in your employee's contract.

'Private use' includes travelling between home and work, unless it's a temporary place of work.

You may also be able to claim all the VAT on a new car if it's mainly used:

- › as a taxi
- › for driving instruction
- › for self-drive hire



## **Leasing a car**

If you lease a car, you can usually **claim 50%** of the VAT. You may be able to reclaim all the VAT if the car is used only for business and is not available for private use, or is mainly used:

- › as a taxi
- › for driving instruction

Buying a new car VAT

# Is now a good time to buy an electric company car

**The “car benefit” charge has been generally based on co2 emissions** – the lower the emissions, the lower the benefit charge. The calculation is based on the “list price” of the car (which includes optional extras, VAT and delivery charges) when new, even if the car was bought second-hand. Diesel cars potentially suffer a higher % charge than petrol cars.

So, what is changing? For fully electric and those with an electric range, the standard benefit in kind on the vehicle itself was 16% of the list price in the 2019/20 tax year. For a standard Tesla 3 the P11D value is £40,840. For a 20% taxpayer this is a benefit of £6534 and £1307 p.a. tax payable. The company pays £902 in Class 1A NI.

**However, for the 2020/21 tax year, the benefit in kind reduced to 0%. Zero! Nothing! In the following tax year, it is 1% and 2% the year after. Costs are therefore:**

Year	Employer	Employee 20%	Employee 40%
2019/20	£902	£1,307	£2614
2020/21	£0	£0	£0
2021/22	£56	£82	£164
2022/23	£112	£164	£328
2023/24	£112	£164	£328

**Some companies will pay for fuel for any private motoring as well as business miles. This is calculated as a percentage of a notional figure each year.**

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An annual comparison of the potential cost of paying for own fuel compared to the tax payable on the benefit should be done. In addition, the employer has Class 1A National Insurance at 13.8%. There are further complications when hybrid vehicles are involved.

Hybrid vehicles with defined mileage ranges are being encouraged with lower tax charges, dependent on the date of the vehicle registration. So could be worth consideration too, as may be tax efficient.

**What about the running costs?**

The cost of charging an electric car will vary largely on location of charging (public or private) and the type of charge, as well as the vehicle. This is largely similar to petrol and diesel costs fluctuating and varying depending on the vehicle.

As an example, a comparison was run of a Tesla 3 against a Lexus IS petrol hybrid. This gave indicative fuel costs of 4.8p per mile for the Tesla and 11.2p per mile for the Lexus. Based on 10000 miles per annum, this is a saving of £640 p.a. As mentioned above, this does of course depend on the make and model, so results will vary.

You also need to factor in that electric cars are still relatively new and evolving, so are more expensive to purchase in the first instance.

The Government is committed to reducing CO2 emissions, and the lower taxes on lower emission cars is one way of trying to achieve this.

**Lesser & Co.**

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