



Make Your Company Car Electric and Save Tax

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What is the current position?

As most company car drivers will already be aware, if a company car is used in a private capacity, it will likely lead to a large benefit in kind, and therefore, a significant Income Tax charge. The more expensive the car and the higher its CO2 emissions; the higher the Income Tax charge will be.

The benefit in kind is calculated as a certain percentage of the list price of the car when it was new. The percentage that is applied increases in line with the car's CO2 emissions. That is why many company car drivers are now considering electric vehicles (either plug-ins or self-charging hybrids) as a tax efficient alternative.

Make the change

You could drastically reduce your benefit in kind tax charge by switching to a hybrid or a fully electric car with a lower CO2 rating. Fully electric cars can have CO2 emissions as low as 0g/km, hence the reduced benefit in kind charge.

As an example, if you currently drive a petrol car, with a CO2 emission rating of 145g/km, the benefit in kind rate will be either 33% or 34% depending on the age of the car. This rate is then applied to the list price of the car, when new, to calculate the value of the benefit being provided.

The lowest benefit in kind charge of 1% (tax year 2021/22) applies only to fully electric cars and hybrid cars that can travel at least 131 miles on a single charge. The benefit in kind charge increases in stages to 13% for a car whose range on a single charge is less than 30 miles.

Private mileage tax charge savings

Company car drivers who have their private fuel paid for by their employer, currently pay tax on this additional benefit in kind. This charge is calculated by applying the same percentage as outlined above to a fixed notional fuel benefit which is £24,600 in 2021/22; but note that this benefit increases each year. In the example above, for a car whose CO2 emissions are 145g/km, the private fuel benefit in kind charge would be £8,118.

For a fully electric car with zero emissions there may be no equivalent fuel benefit at all. Currently, there is no taxable benefit where electricity is provided for charging electric cars at the workplace if this is available to all employees; regardless of whether the electricity is used for business or privately.

If an employee recharges a company vehicle at home and is then reimbursed by their employer for the cost of the electricity used, this will be treated as additional earnings for income tax purposes for the employee. However, the employee can then make a claim on their tax return for the electric cost relating to business mileage using the HMRC advisory rates. This is currently 4p per mile for fully electric cars.

Other advantages

Employers will benefit from a shift to an all-electric company car fleet too. As employers suffer a 13.8% National Insurance charge on total benefits in kind; reducing the total benefits value, by converting to electric, will by default, reduce the overall employers' National Insurance Tax charge. In addition, directors will be able to extract more profits, tax efficiently, from their company, if they convert their car to an all-electric one. As a result of having a lower taxable benefit in kind, additional dividends can be taken instead. For example, if a director had overall income of £100,000 and this included (say) £10,000 of benefits in kind; if those benefits in kind could be reduced to (say) £2,000 as a result of changing their car, an additional £8,000 could be declared as a dividend without incurring any additional tax.

This means you could change your car, have extra cash in your own pockets to spend on things that matter to you and there would potentially be no extra tax to pay! And that's before you factor in the benefit to the planet, for going green.

How we can help

The impact of the additional 1.25% contributions required by employers and employees under the Health and Social Care Levy (announced in September 2021 but becoming effective from April 2022) further strengthens the arguments for moving to an all-electric car (or a hybrid car which can run on electric only) at a lower benefit in kind value.

Sherlock & Co has tax experts available to assist individuals or businesses with their taxes. For assistance please contact us.

CONTACT US

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