



OMB TAX

TAX ADVANTAGES ON ELECTRIC VEHICLES FOR COMPANY CAR DRIVERS



WHAT IS AVAILABLE TO CLAIM?

As most drivers of a company car will be aware, if you have any private use of the vehicle this will result in a significant Income Tax charge. This charge is the way that HMRC levy tax on the deemed value of the benefit of having the use of a company car, and the more expensive the car is and the higher the CO2 footprint of the car, the higher the Income Tax charge will be.

The benefit in kind is a percentage of the list price of the car when it was new, and the percentage applied increases in line with the CO2 emissions of the car.

This is why many company car drivers are now looking at electric vehicles – either plug-ins or self-charging hybrids – as a tax efficient alternative.

HOW DOES IT WORK?

For example, if you presently drive a petrol driven car with a CO2 rating of 145g/km you could drastically reduce your benefit in kind tax charge by switching to a hybrid or fully electric car with a much lower CO2 rating, which for a fully electric car could be as low as 0g/km. There will still be a benefit in kind, even at 0g/km, but it might be as little as just 1% of the list price of the car when new, rather than the 33% or 34% of a petrol engined car rated at 145g/km. For this tax year only, for most cars the benefit in kind charge is 1% lower if the car was first registered on or after 6 April 2020, but the benefit is levelled up for all cars from April 2022 onwards.

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



INCOME TAX CHARGE

Company car drivers whose private fuel is paid for by their employer will also pay an additional Income Tax charge based on the deemed value of this benefit. This charge is calculated by applying the same percentage rate used for the car benefit itself to a fixed amount, which is £24,600 for 2021-22. In the example above for the car with CO2 emissions of 145g/km this will be £8,118, but for a wholly electric car with zero emissions may be no benefit at all.

This is because since 6 April 2018, there has been no taxable car fuel benefit where electricity is provided for an electric car at the workplace, where it is available for all employees, regardless of whether the electricity is then used for business or private mileage.

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 earnings. However, the employee can then make a claim for the electric cost relating to business mileage only using the HMRC advisory rates, which is currently 4p per mile for fully electric cars.



Lastly, employers also benefit from a shift to an all-electric company car fleet. They are obliged to pay a 13.8% National Insurance charge on the total value of benefits provided (car and car fuel benefits); in which case converting to electric will be an additional bonus as the benefit in kind charges arising will be greatly reduced.

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 consideration of all-electric (or hybrid with electric-only mile) cars at lower benefit-in-kind values.

Moore (South) has Tax Experts available to assist individuals or businesses with their taxes. For assistance please contact your local Moore (South) Office.

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