

EMPLOYMENT TAX

Cars for employees



These are commonly referred to as company cars and are taxed by reference to the list price of the car but graduated according to the level of its carbon dioxide (CO₂) emissions. We outline the main areas to consider and the tax and national insurance implications. The Wise & Co Team can advise you on the employer provided car benefit rules.

The current regime for taxing employer provided cars (commonly referred to as company cars) is intended:

- *to encourage 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 and environmentally friendly vehicles.*

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

The rules

Employer provided cars are taxed by reference to the list price of the car but graduated according to the level of its carbon dioxide (CO₂) emissions.

The table below reflects the differences between the new worldwide harmonised Light vehicle Test Procedure (WLTP) and the New European Driving Cycle (NEDC) test it replaced on 6 April 2020.

For most company cars registered after 5 April 2020 car benefit rates are reduced by two percentage points for 2020/21 from the rates previously announced for the year. Additionally, to accelerate the shift to zero-emission cars, all zero-emission models, regardless of when they were registered, are subject to a 0% rate. Thus drivers of these cars pay no company car tax in 2020/21. Both these rates will rise by a single percentage point in each of the following two tax years.

In addition, the government has reduced the percentages which apply to lower emissions cars and introduce new performance-related bands for hybrid vehicles with emissions up to 50 g/km depending on how far the hybrid vehicle can travel under electric power.

Percentage charges

2020/1 Emissions (g/km)	Cars registered after 5.4.20 % of list price taxed	Cars registered before 6.4.20 % of list price taxed
1 – 50 (split by zero-emission miles)	0	0
<130	0	2
70-129	3	5
40-69	6	8
30-39	10	12
>30	12	14
51-54	13	15
55-59	14	16
60-64	15	17
65-69	16	18
70-74	17	19
75-79	18	20
80-84	19	21
85-89	20	22
90-94	21	23

For every additional 5g thereafter add 1% until the maximum percentage of 37% is reached.

Examples

David has a company car, a Hyundai Ioniq, which had a list price of £28,395 when it was provided new on 6 April 2019. The CO2 emissions are 26 g/km and its electric range is 39 miles.

David’s BiK for 2020/21 is: £28,395 x 12% = £3,407.

Diesels

Diesel cars emit less CO2 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 4% of the list price generally applies to diesel cars (unless the car is registered on or after 1 September 2017 and meets the Euro 6d emissions standard).

The diesel supplement does not apply to hybrid cars.

Example

A diesel car that would give rise to a 22% charge on the basis of its CO2 emissions will instead be charged at 26% for 2020/21. The maximum charge for diesel is capped at 37%.

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 <http://carfueldata.direct.gov.uk>. These figures are not however necessarily the definitive figures for a particular car. The definitive CO2 emissions figure for a particular vehicle is recorded on the Vehicle Registration Document (V5).

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. Accessories subsequently made available are included (unless they have a list price of less than £100).
- Employee capital contributions up to £5,000 reduce the list price.

Employer's Class 1A national insurance contributions

The benefit chargeable to tax on the employee is also used to compute the employer's liability to Class 1A (the rate is currently 13.8%).

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.

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 £24,500 for 2020/21 (£24,100 for 2019/20). 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 chargeable to tax and NICs.

Please note that if free fuel is provided later in the same tax year there will be a full year's charge.

Business fuel

No charge applies where the employee is solely reimbursed for fuel for business travel.

HMRC issue advisory fuel-only mileage rates for employer provided cars. Employers can adopt the rates in the following table but may pay lower rates if they choose.

From 1 March 2021:

You can use the previous rates for up to 1 month from the date the new rates apply.

Petrol

Engine size (cc)	Pence per mile
1400 or less	10
1401 to 2000	12
Over 2000	18

Diesel

Engine size (cc)	Pence per mile
1600 or less	9
1601 to 2000	11
Over 2000	12

LPG

Engine size (cc)	Pence per mile
1400 or less	7
1401 to 2000	8
Over 2000	12

HMRC update these rates on a quarterly basis in March, June, September and December.

Employees' use of own car

There is also a statutory system of tax and NIC free mileage rates for business journeys in employees' own vehicles.

The statutory rates are:

Rate per mile

Up to 10,000 miles	45p
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 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 car.

Please contact us at Wise & Co for more detailed advice on cars for employees in your business.

Last updated in April 2021.