

Company cars: The future is electric!

The Government's green agenda (with an aspirational target that all new car/vans will be 100% zero emission by 2035), raising fuel costs and attractive company car tax benefit in kind (BIK) rates has meant that providing an electric company car is becoming a norm.

Government figures show that battery/hybrid electric vehicles make up more than half of all new cars sold, with fully electric vehicle (EV) sales having risen 70% in the last year. Fleet cars represents a large proportion of the new car sales.

Below we consider the incentives and other tax implications associated with EVs which make them so attractive as company cars.

Car BIK

The BIK value of a company car is calculated by multiplying the car's P11D value (its list price including optional extras, VAT and delivery charges, minus the first-year registration fee and annual Vehicle Excise Duty (VED) tax) by the percentage banding the car sits in, referred to as the appropriate percentage.

The current appropriate percentage for a fully electric car with no CO₂ emissions is 2% of the list price until 5 April 2025. In comparison, appropriate percentage for a petrol/diesel car emitting high amounts of CO₂ can reach 37%!

To date, the Government has not announced what the appropriate percentage rate for electric cars will be from 6 April 2025.

Keeping appropriate percentage rates the same is expected to encourage two million more drivers to switch to EVs, consequently, they, their families, and the environment benefit. Incentives such as low BIK appropriate percentage rates and zero road tax can save drivers up to £2,000 per year, according to the Government.

We suspect a lot will depend on how much the tax deficit is and most commentators consider there will be a rise, whether that's gradual or in one go is anybody's guess. However, it is likely that any increase will still compare favourably to a petrol or diesel car for the foreseeable future.

Car fuel benefit

Electricity is not considered a fuel for car fuel benefit purposes. However, there are potential tax implications on vehicle charging depending on the level of support that is going to be given to employees by their employer.

Reimbursement of fuel costs

For business travel where the employee uses their own electricity and has a company car, the company can pay 5p per mile. Employers can pay HMRC's approved mileage rate of 45p per mile for the first 10,000 miles and 25p per mile thereafter for employees who use their own electric car for business travel.

If the employer pays less than the HMRC approved rates for using the employee's car, the difference can be claimed as Mileage Allowance Relief through HMRC. There is no such exemption for company cars.

Grants

The Government announced that plug in grants of up to £1,500 for new electric car orders was withdrawn on 14 June 2022. Existing applications will be honoured, and if a car is sold within two working days of 14 June 2022 but no dealer application has been submitted, the sale will still be eligible.

VED

No VED applies for pure electric cars, ie with no CO2 or nitrogen oxide emissions.

Capital allowances/leasing costs

For tax purposes, capital allowances or leasing costs are limited for a CO2 emitting car, however, an electric car is exempt from the leasing disallowance, and its first-year capital allowance could be 100%.

Workplace charging / Electric Vehicle Homecharge Scheme (EVHS)

A voucher for an electric vehicle charge point on business premises is available for up to £350 (per socket) towards upfront costs. Each applicant is only allowed 40 charge points. The only distinction between the EVHS and the workplace grant is that the EVHS grant is included in the price by the installer.

Congestion charge/low emission zones

Pure electric cars are exempt from ultra-low emission zone charges. Cities such as London have already introduced low emission zones and other large cities, such as Manchester and Birmingham, are due to introduce these soon. This means that the exemption will eventually cover all of the UK.

Salary sacrifice

Electric cars are one of the few 'favoured benefits' which can be provided in conjunction with a tax/National Insurance Contributions (NIC) efficient salary sacrifice arrangement. This can prove to be attractive for both the employees and employers given the current low level of the benefit in kind charge. Salary sacrifice arrangements are agreements by which an employee agrees to reduce their salary in exchange typically for a noncash benefit.

A monthly electric car can be funded by tax savings since the optional remuneration legislation does not apply to cars with CO2 emissions under 75g/km. The tax savings are generated by reducing the employee's gross pay which results in less Income Tax and NIC for the employee, as well as employer's NIC saving for the employer.

For illustration purposes, we have shown below the cost savings for an electric car vs a petrol car and have assumed that the list price is the same for both electric and petrol.

Example

Before salary sacrifice

Electric car

Basic rate taxpayer (20%)

- Assumed list price for Form P11D purposes £30,880
- Appropriate percentage: 2%
- Taxable car benefit: £617.60
- Tax due on the benefit: £123.52
- Lease: £348.54 paid from net pay

Petrol car

£30,880
34%
£10,499.20
£2,099.84
£259.53

After salary sacrifice

- Monthly lease amount of £348.54 taken from gross salary
- Tax saving on £348.54 per month: £69.71
- NIC saving on £348.54 @ 13.25%: £46.18
- Tax due on benefit: £123.52
- Net cost of lease: £232.65

£259.53
£51.90 (on £259.53)
£34.38 (on £259.53)
£2,099.84
£173.25

Tax difference: The electric company car driver pays £1,976.32 less tax and, for both drivers, the net lease cost is less than the pre-salary sacrifice amount paid via net pay, ie, after Income Tax and NIC deductions.

Employer NIC saving @ 15.05% on £348.54 and on monthly lease amount of £259.53 is £52.46 and £39.05 respectively.



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How can we help?

haysmacintyre can help advise clients regarding the use of a tax and NIC efficient salary sacrifice arrangement which will provide benefits to both the employer and their employees. This can include:

- Working with car providers
- Assistance with staff communications
- Compliance reporting

For further information please contact a member of the Employment Taxes team employmenttax@haysmacintyre.com or your usual haysmacintyre contact.

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