Tel: 01622 671 835 | Email: info@accsysltd.co.uk | **www.accsysltd.co.uk**

FACTSHEET

Accsys ACCOUNTANTS LTD

Company Car- Is It Time To Go Electric?

Company cars are an easy target for HMRC – people need a car, and they often desire an expensive one! So maybe it's time to ditch the petrol and diesel and think about going electric…here we help you consider whether an electric car would be more beneficial for you.

Traditionally, the bigger the engine and the more CO2 it outputs, the more tax you pay.

Let's look at a mid-range, 2-litre Volvo V60, costing £39k, producing CO2 of 149g/km and a tax band of 33%. This means you will be taxed as if you had £12,870 additional salary (£39,000 x 33%), that's an additional tax of £2,574 for a basic rate taxpayer or £5,148 for a higher rate taxpayer.

On top of that, the company will pay national insurance on the additional salary of £1,776 (£12,870 x 13.8%).

And if fuel is provided, there will be an additional £1,542 or £3,084 to pay depending on if you are basic or higher rate taxpayer.

When you add this all up, you can see this mid-range car is costing a lot in tax!

This has meant that company cars have fallen out of favour in recent years – it doesn't take a genius to calculate that, in most cases, owning the car personally and claiming mileage for business use @45p per mile means you are better off.

Electric Dreams

The government are serious about cutting CO2s, so want to encourage the use of electric and hybrid cars, and the best way to encourage behaviours is through tax. Therefore, the tax on company electric or hybrid cars is now considerably lower.

Hybrid

Take, for example, the Volvo Hybrid XC40, costing £39K; this has CO2's of 48g/km , an electric range of 161 and a tax band of 1%.

Owning this company car, you would be taxed as if you had £390 additional salary (£39,000 x 1%) and would be paying additional tax of £78 (basic rate) or £156 (higher rate)

And if fuel is provided, you will pay an additional £49.20 or £98.40 depending on if you are basic or higher rate taxpayer.

Pure Electric

Let's now look at a pure electric car such as Tesla Model 3. A standard range model can be bought for around £40,000. Being solely electric, there is no fuel benefit charge, the CO2 of this is 0, and in 2021/22 the tax rate is also 1%.

So this means you would pay £400 additional salary (£40,000 x 1%) and additional tax of £80 if you are a basic rate taxpayer and £160 for a higher rate. In 2022/23 this will rise to 2%.

You will pay £0 tax on the cost of any fuel payable by your employer.

Cost of Purchasing

So, the tax on the individual is lower the less CO2 emissions, but what about the tax relief for purchasing the car?

If your company purchased the Volvo in scenario 1, then it would qualify for capital allowances on the cost of the car at the rate of 8% per annum. For a £39,000 car that's £3,120 relief which equates to £592 reduction in your corporation tax in year 1 (this reduces in each successive year)

For cars with CO2 emissions less than 50g/km, first-year allowances can be claimed, which means 100% of the cost of a car can be claimed against the corporation tax in year 1.

Both lower emission cars used in the example qualify for this. If we take the £40,000 Tesla, you can claim £7,600 against your corporation tax in year 1.

Another option

Another option for your employees is to sacrifice their salary to pay for a lease of an electric car. Sacrificing their salary means they don't pay tax and national insurance (and as an employer you don't pay employers NI) and if the car has CO2 of less 75g/km they pay 1% in 2021/22 and 2% in 2022/23.

In addition, the employee can benefit from a business lease which typically is cheaper than a personal lease.

Conclusion

If you supply cars to employees or are looking to buy a new car for your own company, then now is the time to look at hybrid or pure electric. Not only will you be doing your bit for the environment, but, as we have seen, the tax savings are greater than that of traditional fuel cars.

Contact us to calculate the tax based on your personal circumstances before you commit.