

How should I own my car? – Limited Company Version

Aside from your home, your car is probably one of the biggest expenses you face and how you own this is one of our most frequently asked questions.

This factsheet then investigates how best to own this expensive but essential asset. Personally, or in your Limited Company.

Owning Your Car Personally

If you are a director of a Limited Company and you own your car personally using it for business use, you can claim mileage allowance of 45p for each mile up to 10,000 miles per tax year and 25p thereafter.

The 45p and 25p rates are made up of a fuel element and a wear and tear element.

If you keep receipts for the fuel you use, you can claim some VAT back on the fuel element of each mile. These rates vary depending on the fuel type and engine size.

So, a director doing 10,000 business miles a year paying their own fuel would be able to claim £4,500 back from the company and the company would get a Corporation Tax deduction of £855 on this.

There are a lot of variables, but, for example, a 3 series BMW Diesel would typically cost you around £1,000 in fuel to do the 10,000 miles.

You can lease a BMW 3 series personally from £290 a month so you can see that the business mileage (assuming you did 10,000 miles) could pay for the car (£3,480) and the fuel (£1,000) and save you £855 in Corporation Tax.

Owning the car through the business

When the business owns the car, and it is available for personal use by an individual, the car is classed as a company car.

Company cars are taxed based on their CO2 output; this determines a % of the list price that is counted as extra salary for the individual.

Going back to our fictitious BMW 3 series, the CO2 is somewhere in the region of 130g/km, and this gives us a % of 31%. If the original list price of the car was £35,000, then the extra salary equates to £10,850 which attracts tax of £2,170 @ 20% and Employers Ni of £1,632.



This is without the fuel element which HMRC calculate equates to another £7,843 extra salary which costs £1,568 in tax @ 20% and £1,180 in Employers NI.

This car then cost additional tax and NI of £6,550 although there is some CT saving on the NI of £534 = total tax of £6,016.

You can see that how you own your car is not a straightforward question because it depends on the car list price, CO2 emissions, the fuel type, business mileage and the marginal tax rates. However, as a direct comparison, in these circumstances, you can see leasing the car personally will cost £3,625 and through the company, it will cost £6,016.

You can see from a tax perspective; in these circumstances, the result comes down to not having your car as a company car.

The Electric Car revolution

At present and for the immediate future – All of this is turned on its head if your cars are electric or Hybrid (low emissions – let's look at an electric car if you own it personally vs business ownership and do 10,000 miles a year.

Personally

You can still claim the 45p a mile rate so this would still result in an £855 Corporation Tax saving based on 10,000 miles.

Through the Company

Electric cars have a 2% BIK rate for 22/23 this means its considerably cheaper to provide one as a company car. In addition, because electric cars attract 100% first-year allowance in the year of purchase, you save £6,655 against your Corporation Tax.

So, let's imagine you can buy one for £35,000 then all other things being equal you will not pay £700 additional salary (£35,000 x 2%) and additional tax of £140 if you are a basic rate taxpayer and £280 for a higher rate.

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

So, if the running costs are something like this:

- Car – £35,000
- Fuel – £500
- Repairs – £500
- Insurance – 500

Total costs allowable for tax in year £36,500 * 19 – £6,935 reduction in your Corporation Tax.

It should be noted that if you sell the car in the future Corporation Tax will be clawed back on the sale proceeds.

That said when the car is electric with low emissions (under 50g/km CO2 with greater than 130-mile electric range) then buying it through the company is the best option at the moment.

How we can help

As you will see, any tax advice varies with individual circumstances, so a one to one consultation is essential. If you are thinking of buying a car through your company, please contact us for advice.

Comparing Ownership - Leasing Petrol Car

BMW 3 Series Example	Company car	Personally
Personal Tax	2,170	0
National Insurance	1,180	0
CT Saving	(534)	(£855)
Car Running Costs	£4,480	£4,460
Total	£7,296	£3,605

Comparing Ownership - Purchase Electric Car

Assuming car purchased and a £6,935 deposit paid. Savings are year 1 only.

Electric Car	Company car	Personally
Personal Tax	140	0
National Insurance	105	0
Deposit Paid	£6,935	£6,935
CT Saving	(£6,650)	(£855)
Car Running Costs	£1,500	(£3,000)
Total	£2,030	£3,080