

COMPANY OWNERS

MASSIVE TAX BENEFIT IN HAVING AN ELECTRIC COMPANY CAR FROM APRIL 2020

By specialist property accountant **Stephen Fay** FCA



Many property investors now operate a limited company, and many have spare funds in the company that could be used to fund a company car – or, who would naturally prefer to run their car via the company if tax-efficient to do so – which, at present it almost always isn't. From April 2020, there will be a radical change to the electric company car regime that will mean electric company cars will become very tax-efficient. This article looks at why ...

RECAP – WHY ARE COMPANY CARS NOT USUALLY TAX-EFFICIENT?

The company car tax regime taxes both the employee and employer on the provision of a company car. The amount of tax payable is based on the car benefit, calculated as List Price multiplied by a % based on the CO2 emissions of the car.

FOR EXAMPLE ...

2019 tax year:

Ford Mondeo, list price **£27,815**

CO2 emissions 107g/km = taxable benefit % of 22% = **£6,119**

The employee / director is then taxed on **£6,119** of car benefit, at whatever rate of tax applies for that person (eg, £2,447 for a Higher Rate taxpayer).

What hurts is that the tax is calculated on the list price (brand new), so as the car gets older the tax doesn't reduce. Also, in the example above, the % rate is increasing from 22%, to 25% (2020 tax year), to 26% (2021 tax year) etc. There is also a 4% extra charge for diesel cars. And, the cost of company-supplied fuel is hugely prohibitive as a 'scale charge' is applied – meaning that however much fuel is actually used, the company car driver is taxed as having received a benefit of £3-4k in many cases.

Although the tax regime is more favourable currently for electric and hybrid cars, there still isn't much of a tax benefit in having such a company car. For example, the 2018 tax year car benefit for a Mitsubishi Outlander PHEV is 9%, but this is set to increase to 13% in 2019, and 16% in 2020.

INTRODUCING THE ULEV – ULTRA LOW EMISSIONS VEHICLE (ULEV) – AT LAST, A TAX-EFFICIENT COMPANY CAR REGIME!

From April 2020, there will be a radical reduction in the car benefit rates for 'Ultra Low Emissions Vehicles' (ULEV), ie electric company cars with CO2 emissions of <75g/km.

FOR EXAMPLE:

BMW i3, list price **£33,340**

CO2 emissions 0g/km = **taxable benefit of 9% (2018), 13% (2019), 16% (2020)**

However, from tax year 2021 (April 2020 onwards), the car benefit rate will reduce to just 2%!

For a Higher Rate taxpayer, this will mean a car benefit of **£667**, which when taxed at **40%** equates to a monthly tax charge of just **£22/month!**

OK, THAT SOUNDS NICE! ARE THERE ANY OTHER BENEFITS TO HAVING AN ULEV COMPANY CAR?

Yes, certainly:

Fantastic real-world experience

The real-world experience of ULEV electric cars is seriously impressive. Most are very fast, and torque is immediately available as there are no gears, there is no engine noise and the general experience is one of quiet refinement. Handling is excellent as the batteries are on the car floor, resulting in a low centre of gravity.

Government grants to reduce purchase price

There are government grants of up to £4,500 for most new cars with CO2 emissions <50g/km (assuming a range of 70+ miles). The grant is applied to the purchase price by the car dealer. Scottish residents even qualify for a £35k interest-free loan!

Ever-expanding range of qualifying cars

There is an ever-expanding range of qualifying ULEVs, from the expensive (eg Tesla, BMW i8) to more everyday cars (eg Audi E-Tron Quattro, BMW i4, Jaguar i-Pace, VW e-Golf etc).

Enhanced Capital Allowances (ECAs) for ULEV company cars

Currently, capital allowances can only usually be claimed at 8% per year on the cost of a company car, ie it can take many years for a company to get tax relief on a car. However, 100% Enhanced Capital Allowances will be claimable on the cost of an ULEV from April 2020 – meaning the entire cost of the car can be deducted from company profits before corporation tax is payable. Note this only applies to new cars, not used cars.

Grants available for installation of home and work charging points

There are grants available of up to £500 for a home-charging point, and £300 for a workplace charging point.

Zero road tax and Congestion Charge

ULEVs qualify for zero road tax, and are exempt from the London Congestion Charge.

Massive number of charging points now available

As at July 2018, there were more than 13,000 charging points across the UK, and 96% of filling stations now have rapid chargers. Along with a home and workplace charging point and hugely improved ranges, ULEVs are a genuine option for most people.



OK – I'M CONVINCED, BUT WHAT SHOULD I DO BETWEEN NOW AND APRIL 2020?

Most property investors who have a company will have a personal car that they effectively rent to their company for business use, by charging the company 45p/mile (first 10,000 miles) for the business use of their car, eg @ 45p/mile for 10,000 miles, a company would pay out £375/month, which in most cases is enough to pay for most if not all of the vehicle lease cost (or depreciation), insurance, repairs and fuel.

This is almost always the best way of getting tax relief for the business element of a car's use, and of course as the car isn't owned by the company, there is no company car tax due.

However, given that the new ULEV company car tax regime is set to become much more tax-efficient from April 2020, it may make sense to defer any new car until April 2020 (OR, at least choose a ULEV car which will then benefit from the much-reduced car benefit rates applying from April 2020).

IN SUMMARY ...

From April 2020, there are significant tax savings to be made by having a ULEV company car. With a car benefit rate of just 2% in many cases, 100% capital allowances for the company to write-off the full value of the car, grants available for car purchase and charging point installation (home and work), and no tax on company-supplied electricity, the tax efficiency of a ULEV company car is fantastic, and well worth looking at as a way of funding a car.



Visit our website (www.fyldetaxaccountants.co.uk) for useful tools, tax tips and free reports.