Hart Shaw
Europa Link, Sheffield Business Park,
Sheffield S9 1XU
Telephone: **0114 251 8850**
Facsimile: **0114 251 8851**
info@hartshaw.co.uk

HART SHAW

Chartered Accountants & Business Advisers

www.hartshaw.co.uk www.hartshaw-bri.co.uk

Business motoring -Tax reliefs and benefits

This Briefing covers recent and future changes affecting the tax position of business motoring. This includes a consideration of the current tax deductions available on different types of vehicle expenditure in a variety of business scenarios (unincorporated and companies) and how individuals are taxed when vehicles are provided for employees/directors.

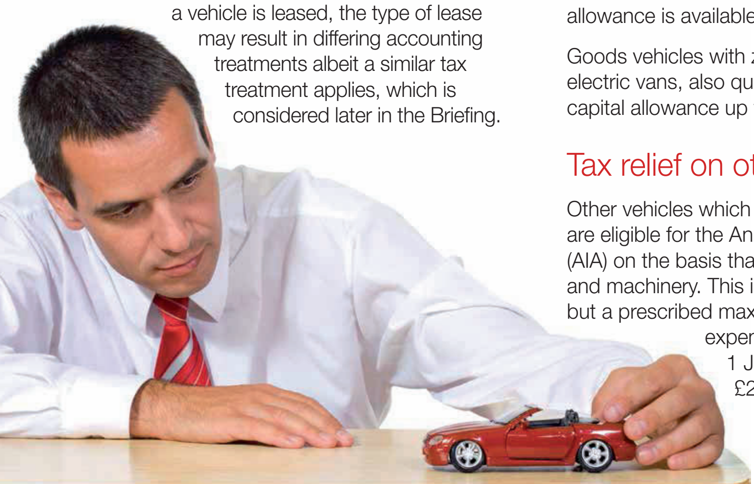
Key essentials

Motoring costs, like other costs incurred, which are wholly and exclusively for the purposes of the business are tax deductible but the timing of any relief varies considerably according to the type of expenditure. In particular, there is a fundamental distinction between capital costs and ongoing running costs.

Purchase of vehicles

Where vehicles are purchased outright, the accounting treatment is to capitalise the asset and to write off the cost over the useful business life as a deduction against profits. This is known as depreciation.

The same treatment applies to vehicles financed through hire purchase contracts with the equivalent of the cash price being treated as a capital purchase at the start. There is also a deduction for the finance charge as it arises. However, the tax relief position depends primarily on the type of vehicle, and the date of expenditure. If alternatively a vehicle is leased, the type of lease may result in differing accounting treatments albeit a similar tax treatment applies, which is considered later in the Briefing.



A tax distinction is made for all businesses between a normal car and other forms of commercial vehicle including vans, lorries and some specialist forms of car such as a driving school car or hackney cab. In addition, specific tax reliefs are currently available to encourage the acquisition of low emission vehicles.

Lower emissions means more tax savings

Both cars and vans which meet certain criteria may benefit from 100% tax relief on the capital cost on acquisition. Such purchases attract a 100% allowance to encourage businesses to purchase vehicles which are more environmentally friendly and are only available on brand new vehicles.

This is particularly significant in relation to cars because otherwise they would only attract an annual tax allowance known as the 'writing down allowance' (WDA) of either 8% or 18% depending on the emissions (see below).

To be eligible for the 100% relief on a car purchase the CO_2 emissions must not exceed 95 grammes per kilometre (g/km) for capital acquisitions between 1 April 2013 and 31 March 2015. Prior to 1 April 2013 a car was eligible for the maximum relief where emissions did not exceed 110g/km. The 100% allowance is then due to be extended for a further three years to 31 March 2018 but the threshold for eligibility will be reduced to 75g/km emissions. The cost of the car is irrelevant and the allowance is available to all types of business.

Goods vehicles with zero emissions, essentially electric vans, also qualify for the enhanced 100% capital allowance up to 31 March 2015.

Tax relief on other vehicles

Other vehicles which are not classed as cars are eligible for the Annual Investment Allowance (AIA) on the basis that they are qualifying plant and machinery. This is also a 100% allowance but a prescribed maximum is set annually. For expenditure incurred on/after 1 January 2013 the AIA is set as £250,000 for two years. Prior to 1 January 2013 the level of AIA was considerably lower and involves some complex calculations where an accounting period straddles that date to determine the correct AIA available, so please do ask us if this information is required.

When plant and machinery purchases exceed the AIA, a WDA of 18% is due instead on the unrelieved expenditure of any commercial vehicle purchases.

Little relief for cars

As previously indicated, cars which do not qualify as low emission cars attract tax relief on a slower basis with an annual WDA as follows:

From 1 / 6 April 2013	Before 1 / 6 April 2013	Allowance
g/km CO_2 emissions		
96 to 130	111 to 160	18% WDA
Exceeding 130	Exceeding 160	8% WDA

Example

King Limited has a 12 month accounting period to 31 March 2014 and is planning on purchasing a commercial van for £25,000 and a car for a member of the sales team costing £14,500 with CO_2 emissions of 144g/km. Other planned purchases on plant and machinery are likely to amount to £35,000 during the period.

As this period falls wholly after 1 January 2013 £250,000 AIA is available and all the qualifying AIA expenditure of £60,000 will be relieved (£25,000 + £35,000). However, the proposed car purchase of £14,500 will only attract an 8% WDA which amounts to only £1,160 in the period giving the company £61,160 total allowances to reduce its profits.

Planning point

Consideration should be given to buying a lower emission car to either increase the WDA to 18% or even in order to obtain the 100% relief.

Comment

The effect of reducing the tax liability of the business with such allowances depends on the type and size of business. For a small company, as in the earlier example, the tax rate is 20%, so the company's tax liability is reduced by £12,232. For a sole trader who pays 40% higher rate tax and whose trading profits are in excess of the upper limit for National Insurance (NI) meaning only 2% NI is due, the effective tax saving is 42% x £61,160 = £25,687.

A particular problem for companies

Companies are required to pool all car purchases along with other plant and machinery acquisitions into either the main pool which attracts the 18% WDA or the special rate pool which attracts the 8% WDA. This may also apply to an unincorporated business where the car is provided for an employee or where it is wholly used (unusual) by a sole trader/partner for business purposes. The key tax implication of pooling is that on a disposal any unrelieved balance of expenditure is not immediately relieved for tax but instead the balance continues to be written down year on year by the 18% or 8% allowance. This could take many years to relieve the true cost incurred by the company or business.

Alternatives to purchase

What if the vehicles are leased?

The first fact to establish with a leased vehicle is whether the lease is really a rental agreement or whether it is a type of purchase agreement, usually referred to as a finance lease. This is because there is a distinction between the accounting and tax treatment of different types of leases.

Tax treatment of rental type operating leases (contract hire)

The lease payments on operating leases are treated like rent and are deductible against profits. However, where the lease relates to a car there may be a portion disallowed for tax purposes. For contracts commencing from 1/6 April 2013, the disallowed portion applies where the emissions of the car exceed 130g/km (160g/km for contracts from April 2009) and is 15% of the leasing costs incurred. The restriction does not apply to any service element of the cost.

Comment

Where a company has a key requirement to use cars in its business, particularly those which only attract 8% annual WDA, then the leasing alternative even with the 15% disallowance will bring an earlier tax saving to the business. If cars up to 130g/km emissions are leased then the full cost incurred under the lease is tax deductible.

Tax treatment of finance leased assets

These will generally be included in your accounts as fixed assets and depreciated over the useful business life but as these vehicles do not qualify as a purchase at the outset, the expenditure does not qualify for capital allowances unless classified as a long funded lease. Tax relief is generally obtained instead by allowing the accounting depreciation as well as any interest and finance charges in the profit and loss account, a little unusual but a simple solution! A 15% disallowance still applies to both the depreciation and other costs if the lease applies to a car with emissions exceeding 130g/km.

Private use of business vehicles

The private use of a business vehicle has tax implications for either the business or the individual depending on the type of business and vehicle.

Sole traders and partners

Where you are self-employed and use a vehicle owned by the business, irrespective of whether it is a car or a van, the business will only be able to claim the business portion of any allowances. This applies to capital allowances, rental and lease costs, and other running costs.

Providing vehicles to employees

Where vehicles are provided to employees irrespective of the form of business structure (sole trader/partnership/company), a taxable benefit generally arises on the employer for private use. A tax charge may also apply where private fuel is provided for an employer provided vehicle. For the employer all such taxable benefits attract 13.8% Class 1A National Insurance contributions.

Cars

When a car is provided for the exclusive use of a particular employee a taxable benefit is calculated based on the list price of the car and the level of its CO_2 emissions.

This is intended to encourage company car drivers and their employers to choose more fuel efficient vehicles as the lower the emissions, the lower the taxable benefit which corresponds with how cars are treated for capital allowance purposes.

Table showing effect of level of emissions on benefits	2013/14
no CO_2 emissions	0%
1-75g/km or less	5%
76-94g/km or less	10%
95-99g/km	11%

Graduated increases then occur of 1% per 5g/km up to a maximum of 35%.

A diesel car generally has lower CO_2 emissions than a petrol equivalent but attracts an additional 3% supplement each year (due to other pollutant emissions) but not to exceed the overall maximum. This is abolished from 6 April 2016.

2014/15

Cars with CO_2 emissions of more than 75g/km will increase by 1% up to a maximum of 35%, for example, those cars from 76-94g/km will be 11%, 95-99g/km 12%, etc.

2015/16

The 0% band is abolished but two new bands will provide for a 5% rate for cars with CO_2 emissions of 0-50g/km and a 9% band for cars with CO_2 emissions of 51-75g/km. All other percentages will increase by 2% to a new maximum of 37%.

2016/17

All percentages will increase by a further 2% up to the maximum of 37%.

Illustration based on 2013/14 rates

For a car with a list price including VAT of £23,000 and CO_2 emissions of 180g/km the benefit would be 28% x £23,000 = £6,440. If the CO_2 emissions were instead 85g/km the taxable benefit would only be 10% x £23,000 = £2,300!

Comment

There are a number of detailed rules which can reduce the tax benefit charged such as unavailability of the car and contributions made by the employee/director, so if you are concerned with the precise tax position please contact us for further information.

Fuel and cars

If free fuel is provided with an employer provided car for private motoring then a fuel benefit tax charge also arises. This is based on a 'fixed' list price multiplied by the car benefit percentage for that employee. The 'list price' for calculating this has increased substantially over recent years and is now £21,100 for 2013/14. This means that if an employee has a 28% car benefit percentage and also receives fuel for private motoring, then the fuel benefit for 2013/14 will be: £21,100 x 28% = £5,908.

Vans

No charge applies where employees have the use of a van and a restricted private use condition is met. For details on what this means please contact us. Where the condition is not met there is a flat rate charge per annum of £3,000 for the unrestricted private use. Where vans are shared a reduction is made to the benefit on a just and reasonable basis.

Where an employer provides fuel for unrestricted private use an additional fuel charge of £564 also applies.

If you would like further details on any matter contained in this Briefing please do get in touch.