



Company cars: the future is electric

Tax and the electric company car

The Government is committed to phasing out the sale of new petrol and diesel cars from April 2030 (some hybrids remaining available until 2035). This is reflected in the fact that you can get a discount up to 35% on the purchase of brand new fully electric cars with a list price below £32,000 (capped at £1,500 for cars) through a grant provided to vehicle dealerships and manufacturers.

It is, however, also difficult to ignore the tax incentives that seek to encourage company car users into wholly electric and, to some extent, hybrid cars.

We examine these in more detail below:

Vehicle Excise Duty (VED) rates for fully electric vehicles have been reduced to nil until at least 2025. Additionally, those costing more than £40,000 are exempt from the 'expensive car' supplement.

A business can get 100% first year allowances for the cost of new and unused fully electric vehicles and any other vehicles with zero-emissions (net of the government grant).

Used zero emission cars and cars with emissions between 1 and 50g/km obtain

capital allowances at 18% (the main business rate) and 6% for cars with emissions greater than 50g/km.

Enhanced relief at 130%, via the Government's new Super Deduction, may be available on certain vehicle purchases prior to 31 March 2023, but only where they meet the definition of a van and other qualifying criteria.

The Super Deduction is not available for cars.

If a car is leased, rather than purchased, then the company will receive a deduction for the rental cost when accounted for in the profit and loss account. However, for contracts entered into on or after 1 April 2021, if the car has emissions greater than 50g/km, 15% of the rental cost will be disallowed for corporation tax purposes.

Employers can claim 100% first year allowances for the costs of installing charging points at the workplace which, when used by the employee, won't attract a benefit-in-kind charge for the employee, provided they are made freely available to all.

For petrol and diesel cars, the car benefit-in-kind charge is based on a percentage of a car's list price set by reference to its CO² emissions.

For example: a new BMW 740i Saloon with a list price of approx. £70,000 and emissions of 189g/km produces a benefit of 37% of list price i.e. £25,900 p.a.

For zero-emission vehicles, however, the tax charge is currently 2%, remaining static for 2023-24 and 2024-25, producing a significantly lower benefit-in-kind charge.

Here's a simple illustration comparing that BMW with an all-electric Jaguar I-pace with a list price of around approx. £70,000.

Vehicle	BMW 7 series saloon	Jaguar I-pace
Approximate list price	£70,000	£70,000
Emissions	189 g/km	Zero g/km
BIK for 2022/23	£25,900 (37%)	£1,400 (2%)
2022/23 monthly BIK	£2,158.33	£116.67
Cost @ 40%	£863.33 per month	£46.67 per month

Whilst an eye will have to be kept on the longer-term future, it's almost certain that, if it's to be a company car, it'll need to be electric – or be taxed out of sight!

Unlike most other benefits, zero-emissions and certain low-emissions cars (75g/km CO² or less) can still be provided in conjunction with salary sacrifice arrangements. This means the associated tax and NIC savings are available.

The tax breaks also extend to charging an electric vehicle.

Should an employer decide to install a charging point at the employee's home to allow them to charge their company car, this would be exempt (whilst the employee remains in employment) as the company car benefit-in-kind rules preclude any additional charge otherwise.

Note: it's only where the employer provides a charging point at the employee's home in connection with a personally owned vehicle that a benefit-in-kind charge arises (the usual benefit rules in relation to the provision of assets apply).

The cost of a charge card which allows an employee unlimited access to local authority vehicle charging points for the purpose of charging their company car is exempt from a benefit-in-kind charge, where provided by an employer.

For company cars, employees can reclaim mileage at the appropriate advisory electric rate for business mileage in their company car. Employees with their own electric cars can continue to claim using the usual Authorised Mileage Allowance Payments (AMAPs), and if the employer pays less than the published rates, may claim tax relief under Mileage Allowance Relief (MAR).

Finally, we have focused on wholly electric cars above as the clear direction of travel. However, if you have concerns over battery capacity of an all-electric car, there remain potential benefit-in-kind savings to be had from hybrid cars.

The BIK rates can be as low as those applied to fully electric cars where CO² emissions remain under 50g/km and the battery range is over 130 miles per charge.

For new equally low-emitting hybrids but with a more modest electric range (let's say 50 miles), the rates will remain at 8% over the next few years.

In summary

The tax treatment of electric vehicles firmly puts the company car on the agenda. If you'd like to consider this further or have any queries, please get in touch with your usual Larking Gowen contact.

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