

2018/19  
GUIDE TO...

# Business Motoring



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# YOUR GUIDE TO...

## Business Motoring

With changes to the company car rules taking effect from April 2018 and beyond, many firms could see their motoring costs rise significantly over the coming years. With this in mind, it is important to organise your business motoring in the most tax-efficient way possible.

### Acquiring a vehicle

For businesses looking to acquire a vehicle, the three principal options are: outright purchase, possibly funded by a loan or overdraft; hire purchase; and contract hire/personal contract purchase/finance leasing. The decision as to which is appropriate will need to take into account a range of factors, including the availability of cash, car ownership and the VAT situation.

### The tax treatment

Where vehicles are purchased outright or financed through hire purchase, the accounting treatment is to capitalise the asset and to write off the cost over the useful business life as a deduction against profits.

A tax distinction is made for all businesses between a normal car and other forms of commercial vehicles including vans, lorries and some specialist forms of car, such as a driving school car or taxi. Generally cars only qualify for a writing down allowance (WDA) of 18% or 8%. For cars purchased up to 31 March 2018 the CO<sub>2</sub> emissions limit for 18% WDA is 130 g/km, reducing to 110 g/km for purchases after that date. Other commercial vehicles may qualify for an immediate tax write off.

Finance leased assets will generally be included in the business 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 normally qualify for capital allowances.

The tax relief for both contract hire and finance leases is based on the amounts that are charged to the profit and loss account. For finance leases this will be depreciation, interest and finance charges. For contract hire the lease payments on operating leases are treated like rent and are deductible against profits.

A disallowance of 15% will apply for cars with CO<sub>2</sub> emissions which exceed 130 g/km for leases taken out up to 31 March 2018 and 110 g/km thereafter.

# Who Owns the Car?

## Sole trader and partners

The tax cost of private motoring is generally calculated on a case-by-case basis, taking into account the actual private and business mileage to identify the proportion of the cost of running the car which is not a deductible expense. The proportion of costs attributable to business motoring is tax-deductible, so qualifies for relief against both tax and Class 4 national insurance contributions (NICs).

Where you are in business on your own and use a vehicle, irrespective of whether it is a car or 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 such as servicing, fuel etc.

Rather than claiming the actual deductions for purchasing, maintaining and running a motor vehicle or motorcycle, businesses can calculate allowable expenditure using a fixed rate based on mileage.

## Directors and company cars

Where the company owns the car all the running costs are deductible against profits but you, as a director, will pay tax on a benefit-in-kind (BiK). If any fuel for private use is provided by the company, you will be liable for another BiK.

## Employees

The same tax issues apply to employees irrespective of the form of business structure – sole trader, partnership or company. For the employer, taxable benefits on the director or employee attract 13.8% Class 1A NICs.

## Who pays for the fuel?

As fuel will be used for both private and business journeys, a system needs to be in place so as to avoid the taxable benefit on free fuel. As the taxable benefit is high, in most cases it is better for the employer to pay only for the business mileage.

One method that can be used is for the employee to pay for all the fuel and claim a mileage allowance from their employer for business travel. The private fuel must be repaid in full for the BiK charge to be avoided – a partial repayment will not suffice.

HMRC publish rates which can be used to reimburse employees tax-free for business miles that they travel in an employer-provided car.

# The Cost of the Benefits

## Car benefit

Employees and directors pay tax on the provision of a company car, as well as on the provision of fuel for private mileage. Employers pay Class 1A NICs at 13.8% on the same amount.

Company cars are taxed as a BiK by multiplying the list price of the car, including most accessories, by the 'appropriate percentage'. This percentage is set by reference to the car's fuel type and level of CO<sub>2</sub> emissions. It is worth noting that the BiK rates increased significantly from April 2018 and range between 13% and 37% in 2018/19.

Until 5 April 2018 a 3% surcharge was added to the appropriate percentage for cars propelled solely by diesel. This surcharge increased to 4% on 6 April 2018, although the maximum fuel rate remains at 37% (unless the car is registered on or after 1 September 2017 and meets the Euro 6d emissions standard).

## Fuel benefit

Where fuel for private use is provided by an employer the employer is liable for Class 1A NICs, and the employee for tax on the full benefit. This is calculated by applying the appropriate percentage to the fixed car fuel benefit charge, which is currently set at £23,400 for 2018/19. Where VAT is to be reclaimed on fuel for private use, the employer has to account for output tax, which may be calculated under the optional VAT flat rate valuation rules.

## Company vans

Have you considered a company van? The taxable benefit for the unrestricted use of company vans for 2018/19 is £3,350 plus a further £633 of taxable benefit if fuel is provided by the employer for private travel. There is no benefit charge where the private use of the van satisfies 'restricted private use conditions' throughout the tax year. There is also a reduced charge for electric vans.

## Salary sacrifice or Optional Remuneration Arrangements

Until 6 April 2017 it was common for employees to enter into a salary sacrifice arrangement, whereby they receive a benefit instead of cash from their employers. In the case of cars, the BiK would ideally be less than the cash foregone and the corresponding income tax and NIC thus saved. After 2017, however, income tax is charged on the higher of the benefit or the cash foregone. For existing car benefit arrangements (for cars with a CO<sub>2</sub> emission level above 75 g/km) in place as at 6 April 2017, the change will not take effect until 6 April 2021 or such time as the arrangement is changed, whichever is earliest.

# Tax Pointers

## Records and returns

If you are a sole trader or a partner, you need to record motoring expenses and mileages for the purpose of claiming tax reliefs for these costs. However, if you are the owner of a limited company or of a business providing one or more company cars, you must also comply with the reporting requirements of HMRC.

You must give notice when a company car is first provided to an employee or director, report certain changes and annually report the taxable benefit(s). A form P46 (Car) must be filed quarterly (this can also be done online), reporting all relevant company car changes (except where one car is replaced with another). A form P11D, reporting all benefits and expenses payments not covered by statutory exemption, must be filed no later than the 6 July following the end of the tax year.

The same deadline applies for providing a copy to the employee or director, while the employers' national insurance payable on the benefit is due by 19 July.

## Employees and directors using their own cars

In many cases, business travel will be undertaken by employees and directors using their own vehicles. HMRC has approved mileage allowance payments (see below) which can be paid by employers to reimburse the cost of such usage, and payments at these rates will be accepted for all tax purposes:

Vehicle	First 10,000 miles	Thereafter
Car or van	45p	25p
Motorcycle	24p	24p
Bicycle	20p	20p

*These rates effective at April 2018.*

## Pros and cons of company cars

**Pros:** essential tools for your business; control over company image and costs; peace of mind for employees.

**Cons:** paperwork; fleet management; capital locked into the car fleet; cost of finance; increasing tax and NIC costs.

**For more information and advice on tax-efficient business motoring strategies, please contact us.**

# Our Services

## Business Planning

- Business start-up planning and advice
- Strategic and business planning
- Financial management
- Computer and financial systems advice

## Taxation Advice

- Self assessment
- Personal tax
- Business tax
- Company tax
- Capital gains tax
- Inheritance tax
- HM Revenue and Customs enquiries
- Value Added Tax
- PAYE and national insurance compliance
- Preparing for Making Tax Digital

## Accounting

- Preparation of annual accounts
- Preparation of periodic management accounts
- Providing book-keeping services
- Maintaining PAYE and VAT records and associated returns

## Company Secretarial

- Preparation and filing of statutory returns
- Preparation of minutes and resolutions
- Company formation
- Company searches

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