

Car benefit changes

(Lecture B1056 – 13.57 minutes)

In response to a question about the range of colours available to purchasers of his new Model "T", Henry Ford famously replied that they could have any colour they wanted as long as it was black.

Nowadays it seems that we can have our cars sprayed in any colour in the spectrum but the taxman will want his pound of flesh if the car isn't green.

The current system

The current car benefit system calculates taxable benefits as a percentage of the list price of the car with the percentage being based on the vehicle's CO₂ emissions. The percentage increases as emissions rise thereby leading to a system that (deliberately and understandably) favours cars with lower emissions.

This has been the case since April 2002 when the emissions-based system replaced the previous regime that curiously reduced benefits for employees with high annual business mileage.

The current benefit percentages are as follows:

<i>CO₂ emissions (g/km):</i>	<i>% x List price</i>		
	<i>2017/18</i>	<i>2018/19</i>	<i>2019/20</i>
<i>Up to 50 (inc. fully electric vehicles)</i>	9	13	16
<i>51 - 75</i>	13	16	19
<i>76 - 94</i>	17	19	22

Thereafter the % increases by 1% for every 5 g/km over 94 g/km. There is a 3% supplement for diesel cars that are not certified to the Real Driving Emissions 2 (RDE2) standard (with the supplement rising to 4% from April 2018). In reality very few diesel vehicles will meet current RED2 standards so the supplement will apply to virtually all diesel cars (it is intended that it will be removed in April 2021). Diesel hybrids are not subject to the supplement. The maximum percentage is 37%.

The system from 6 April 2020

As confirmed by the Government in Autumn 2017, from the tax year 2020/21, the car benefit system will change significantly and will become even more attractive for zero or low emission vehicles.

The changes are designed to provide an even greater incentive for employers to offer (and for employees to accept) the use of ultra-low emission vehicles (ULEVs) and to support the UK's ULEV market.

The measures are also intended to address the issues of poor air quality and reduce the effects of global warming. The stated aim is for us all to be at the wheel of zero emission cars and vans by 2040.

The new ULEV rates kick-in from April 2020 with the lowest benefits for cars with CO₂ emissions below 50 g/km. Electric vehicles with zero tailpipe emissions will have a benefit percentage of 2%, thereby differentiating them for the first time from their hybrid relatives. Cars with CO₂ emissions of between 1 and 50 g/km – such as most plug-in hybrid electric vehicles (PHEVs) - will have benefit percentages varying from 2% - 14%.

Within the 1 - 50 emissions category there are different percentage bands based on the vehicle's "electric range" with maximum tax savings offered for those cars that can travel furthest by battery power only. The electric range (also called "zero emissions mileage") is the maximum distance the vehicle can travel in pure electric mode without recharging the battery or using the combustion engine of the plug-in vehicle. This range is declared on the certificate of conformity or type approval certificate (if the range is expressed in kilometres - which it normally is - one should multiply by 0.6214 for a mileage equivalent).

After that the system is reasonably straightforward. The benefit rate is 15% if emissions are 51 – 54 g/km with 1% increments for each subsequent band of 5 g/km.

The benefit rates from 2010/21 will therefore be as follows:

<i>CO₂ emissions (g/km)</i>	<i>Electric range (miles)</i>	<i>Relevant % x list price</i>
Nil	n/a	2
1 – 50	> 130	2
	70 - 129	5
	40 - 69	8
	30 – 39	12
	< 30	14
51 - 54	n/a	15
55 - 59	n/a	16
		etc

The diesel supplement for non-hybrid vehicles remains (as does the overall percentage cap at 37%). The cap will apply for cars with CO₂ emissions levels at 160 g/km or above (or 145 g/km and above for non-hybrid diesel vehicles).

Company fleet cars account for more than half of all new car sales in the UK with around 1.3 million fleet or business registrations each year. The new benefit bands are expected to bring about a significantly increased take-up of ULEVs by car fleets.

This will undoubtedly be accompanied by an increase in the range of ULEVs being offered by the car manufacturers (and hopefully a reduction in the list prices given that a hefty premium is currently being added to the price of ULEVs in comparison to their less eco-friendly cousins).

And don't forget the knock-on benefits of ULEVs in the form of lower Road Tax and exemptions from the London congestion charge. Every little helps.

Fuel benefits

An additional benefit is charged if fuel is provided by the employer for non-business mileage (which includes home to work travel). The benefit is a percentage of the fuel benefit multiplier that is currently £22,600 (rising to £23,400 for 2018/19 and increasing by the RPI thereafter). The percentage is that determined under the car benefit rules.

There are no proposed changes to the way in which the fuel benefit will be calculated from 2020/21, so the reductions in the car benefit percentages for hybrid vehicles from April 2020 will automatically reduce the taxable benefits where private fuel is provided.

For example, offering an unlimited fuel card to the driver of a PHEV could mean that the fuel benefit is as low as (say) £23,400 @ 12% = £2,808 per annum (at current rates) leading to a tax liability for a higher rate taxpayer of around £94 per month. The liability is even smaller if the 8% or 5% rates could be accessed. Prima facie this appears a little anomalous as it seems to give the employee no incentive to refrain from using the vehicle in petrol mode and it could lead to "high mileage" employees choosing the fuel option from their menu of employee benefits.

A few comparisons....

The Ford Mondeo remains a very popular and common company car in 2018. The benefits on the provision to an employee of a Ford Mondeo 2.0 TDCi are as follows:

List Price £27,815

CO₂ emissions 107 g/km

Petrol engine

<i>Tax year</i>	<i>Relevant %</i>	<i>Taxable benefit</i> £
2017/18	20	5,563
2018/19	22	6,119
2019/20	25	6,953
2020/21	26	7,232

The new rules in 2020/21 have little effect.

Compare this to a typical and popular PHEV such as a Mitsubishi Outlander.

List Price £36,055

CO₂ emissions 42 g/km

Electric range 52 km (32 miles)

<i>Tax year</i>	<i>Relevant %</i>	<i>Taxable benefit</i> £
2017/18	9	3,245
2018/19	13	4,687
2019/20	16	5,769
2020/21	12	4,436

Here we do see a reduction in the benefit in 2020/21 although it still exceeds the taxable benefit for 2017/18 due to the restricted electric range of the car. [Most PHEVs actually have an electric range of less than 30 miles as 94% of all car journeys are 25 miles or less, so accessing the new 2, 5 or 8% rates might be difficult.]

Finally compare the above to a fully electric car such as a BMW i3 :

No CO₂ emissions.

List Price £33,340 (entry level model)

Electric range 195 miles

<i>Tax year</i>	<i>Relevant %</i>	<i>Taxable benefit</i> £
2017/18	9	3,001
2018/19	13	4,334
2019/20	16	5,334
2020/21	2	667

The reduction in the benefit from April 2020 is clear to see giving a tax saving of over £150 every month for a higher rate taxpayer. In addition, the 13.8% NIC saving for the employer shouldn't be overlooked.

For those needing an extended battery range, BMW have the i3 with Range Extender (BMW i3 REx) which incorporates a small scooter engine alongside the battery which kicks-in when the battery is nearly flat. The Extender is intended as an emergency backup to get you to the next recharging location and increases the range of the vehicle to a possible 275 miles. The Extender powers the battery (rather than driving the wheels of the car like normal hybrids).

Drivers need to put petrol in the Range Extender (it has a 2.4 gallon tank). So this makes the i3 REx a hybrid and not a zero emissions electric car (although with a zero-emissions range of over 130 miles, the new benefit rate from 2020/21 will be 2% - ie, the same as a 100% electric car). The Range Extender adds around £3,000 to the list price of the standard BMW i3.

Capital Allowances

In addition to standard capital allowances available for vehicle ownership, businesses are able to claim Enhanced Capital Allowances (which are essentially first year allowances) for electric and low emission vehicles used for business purposes. This includes use by employees.

ULEVs are eligible for a 100% write-down in the first-year of purchase. The vehicle must be brand new (ie, unused and not second-hand).

All businesses (of whatever size) can claim 100% ECAs on a car provided that:

- It is electric or has CO₂ emissions of ≤ 50 g/km (75 g/km until 31 March 2018);
- The expenditure is incurred before 31 March 2021.

There is an increasingly appealing range of vehicles which will qualify for 100% ECAs including the VW e-Golf, the Volvo V60 / XC90 PHEV, the Audi e-tron A3 and Q7, Mercedes PHEVs (such as the C-class and E-class ranges and the S-class 500s), the BMW e-range (225xe, 330e, 740e and i3) and several others. To this one can add more exotic creatures such as the BMW i8 hybrid and the Porsche 918 Spyder (although the Spyder's list price of £625,000 might be a little rich for some pockets).

The attractiveness of ULEVs is further advanced by the availability of Government grants towards the cost of a new electric vehicle or PHEV. The grant is typically either £2,500 or £4,500 depending on the vehicle category. Grant applications are generally handled by the car dealer. The amount eligible for capital allowances is the net spend – ie, the cost of the vehicle less the grant received.

Cars which are not ULEVs will continue to be eligible for capital allowances at 18%. There is a special rate of 8% for cars with emissions exceeding 110 g/km (130 g/km before 1 April 2018).

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