

The tax benefits of electric cars (Lecture P1297 – 14.58 minutes)

The tax regime for company cars is designed to encourage the use of low-emission vehicles. Many clients are starting to realise quite how advantageous the electric car benefit in kind legislation has recently become. For example, it has been traditional for tax advisers to advocate that it is more tax-efficient for the proprietors of owner-managed businesses to hold cars in their own names rather than that of their companies. However, the electric car revolution means that this is no longer the case.

Car benefits

For low-emission cars first registered on or after 6 April 2020, the relevant percentage table for 2021/22 shows the following:

<u>CO₂ emissions</u>	<u>Appropriate percentage</u>
0	1%
1 – 50 with electric range of:	
• 130 miles or more	1%
• 70 – 129 miles	4%
• 40 – 69 miles	7%
• 30 – 39 miles	11%
• Less than 30 miles	13%

In other words, a higher rate taxpayer, who is provided by his company at the start of 2021/22 with a new Tesla Model 3 costing £40,990, will be subject to a benefit in kind tax charge of $40\% \times (1\% \times £40,990) = £163.96$, given that the car is fully electric. The employer's Class 1A NIC liability amounts to $13.8\% \times (1\% \times £40,990) = £56.57$.

Where an individual has a car made available to him under a salary sacrifice scheme, the benefit is valued as the higher of:

- the amount of the salary given up; or
- the taxable benefit.

However, the optional remuneration rules, which were introduced in FA 2017, do not apply if the company car has CO₂ emissions of 75g/km or less (S120A ITEPA 2003). It should be noted that this is a different definition of a low-emission car from that used in the capital allowances legislation (see below).

Car fuel benefits

Where an employer pays for the cost of charging a company-provided electric car, there is no taxable fuel benefit for the driver. Electricity is not classed as a fuel for car benefit purposes.

If the driver of an electric car pays for the electricity needed to power it, either from his own domestic supply or by charging at a roadside station, the employer can reimburse the employee on a tax-free basis for that cost. With a roadside charge, it is easy to determine the cost, but it is not so straightforward to calculate the monetary value when charging from a domestic supply. This problem has, however, been resolved, given that an employer can pay the driver 4p per mile to reimburse them for the cost of electricity used. This rate only applies to company cars, and not to private vehicles.

Electric charge-points

If an employer provides battery charging facilities for a vehicle which is not a taxable car because it belongs to a member of staff, there is no benefit in kind tax charge on electricity and other facilities which employers provide for this purpose (S237A ITEPA 2003).

S237A ITEPA 2003 applies where the relevant facilities are made available 'at or near' the workplace. The words 'at or near' are not defined in the legislation. HMRC have said that they will adopt the same approach with this section as they do for S237 ITEPA 2003 (parking provision and expenses). Thus, as long as the charging facilities are within a reasonable distance from the place of work, having regard to the nature of the locality, the exemption will be available. See Para EIM21685 of the Employment Income Manual for the details of HMRC's interpretation of 'at or near' in the context of parking facilities. Note that the S237A ITEPA 2003 exemption does not extend to the reimbursement by employers of costs incurred by employees when recharging their own cars away from the workplace (e.g. at a motorway service station).

Road tax and congestion charge

Vehicle Excise Duty (usually known as road tax) has been reduced to zero for all electric cars until 2025. Similarly, electric vehicles are exempt from the congestion charge, provided that they are registered for the Cleaner Vehicle Discount (which costs £10). However, with effect from 25 December 2025, all cars travelling in Central London will be subject to the congestion charge.

Capital allowances

The Capital Allowances Act 2001 (Car Emissions) (Extension Of First Year Allowances) (Amendment) Order 2021 (SI 2021/120) came into force on 1 April 2021. This enacts the announcement made by the Chancellor in his Budget last year that the 100% FYA regime for cars with low CO₂ emissions was being extended by a further four years. In order to qualify for 100% FYAs, the relevant car expenditure must meet the necessary requirements under S45D CAA 2001:

The expenditure must be incurred no later than 31 March 2025. There are no restrictions on the amount of this expenditure.

The car must have been acquired unused. It must not be second-hand.

The car must:

- be electrically-propelled; or
- have low CO₂ emissions.

The expenditure must not be caught by any of the general exclusions in S46 CAA 2001.

The applicable CO₂ emissions figure in relation to the car must not exceed 0g/km. The previous limit – for cars bought before 1 April 2021 – was 50g/km.

With effect from 1 April 2021, cars with CO₂ emissions not exceeding 50g/km are eligible for capital allowances at the main WDA rate of 18% (S104AA(4) CAA 2001). This represents a significant reduction from the former threshold of 110g/km.

Illustration

Donald has a small family business and is looking to replace his existing company car with an electric one. In October 2021, he opts for a new Nissan Leaf at a cost of £25,995.

In view of the fact that the car's CO₂ emissions are zero, Donald can claim a 100% FYA against his company's profits for the current accounting period, thus obtaining an immediate corporation tax write-off of $19\% \times £25,995 = £4,939$.

If Donald had spent £25,995 on a car which did not attract the 100% FYA, he would at best only qualify for an 18% WDA, as a result of which his company's tax bill would be reduced by $19\% \times (18\% \times £25,995) = £889$.

By choosing a zero-emission car, Donald is able to write off the full cost with immediate effect and increase the corporation tax saving by £4,050 (£4,939 – £889).

Conclusion

Given that the driver of an employer-provided electric car suffers a very modest benefit in kind charge (and no car fuel tax for any private motoring), it will make sound tax planning sense for family or owner-managed companies (and others) to purchase such cars through the business rather than in the individual's own name, especially when one takes into account the unlimited 100% FYAs available until 31 March 2025.

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