

## **Car benefit: impact of Autumn Statement (Lecture P1352 – 20.25 minutes)**

Updated car benefit figures were announced for periods up to 5 April 2028 as part of the Autumn Statement. We will consider the impact below but first, a brief refresher on car benefits.

A car benefit will arise if an employee, or a member of their family or household, is provided with a car by their employer which is available for private use. The calculation of the benefit is determined by rules which calculate the cash equivalent. There are exemptions for pooled cars.

The cash equivalent depends on the list price, the CO<sub>2</sub> emissions, electric range (where relevant) and in some cases, the date of registration of the vehicle. The cash equivalent can be apportioned if the vehicle is unavailable for part of the year (including where it is first made available or ceases to be made available part way through the year).

There is a separate benefit where fuel is provided by the employer for private mileage which is not fully reimbursed by the employee. This applies the percentage linked to the CO<sub>2</sub> emissions to a fixed figure. It should be noted that fuel does not include electrical charging.

Company cars can be caught by the optional remuneration provisions, other than where it is an ultra-low emission vehicle. If that is the case, the employee will be taxed on the higher of the cash equivalent of the vehicle or the salary foregone for the cost of providing the car and any related costs.

It is important to note that there is a difference in the benefit for cars and vans and it is important to ensure that you understand the nature of the vehicle. Any mechanically propelled road vehicle is a car unless it is a goods vehicle, a motorcycle or a vehicle of a type which is unsuitable for use as a private vehicle and not commonly used as such. A van is any goods vehicle which is not a motorcycle and weighs no more than 3.5 tonnes when fully laden. A goods vehicle is one whose primary construction purpose is to carry goods or burden. This has been subject to litigation recently.

Where a van is provided and does not meet the restricted private use condition (which would mean no benefit arises), then a fixed rate van benefit and van fuel benefit amount arises. No benefit arises if it is an electric van. The cash equivalent for the van can be apportioned between the users on a just and reasonable basis if there is shared use of the van.

The employer will pay 13.8% Class 1A National Insurance Contributions on the cash equivalent of the benefit (14.53% for 2022/23).

### *The cash equivalent of company car*

The cash equivalent is calculated as a percentage of the car's list price. For most cars, that percentage is determined by the CO<sub>2</sub> emissions and electric range (for low emitting cars). The maximum percentage is 37%.

The list price means the full published price of the car inclusive of VAT, optional extras and accessories, when first registered. The price paid is irrelevant. This can be reduced by any capital contribution made by the employee up to a maximum of £5,000.

The measure of emissions changed from 6 April 2020 so there are two scales of percentages, depending on whether the car was first registered before or after that date.

For a diesel car, a 4% supplement is added unless the car meets the RDE2 standards for emissions of nitrogen oxide, commonly known as Euro 6d. The maximum remains at 37% even if the 4% supplement applies.

Finally, the cash equivalent is reduced by payments made by the employee to the employer for the private use of the vehicle where this is required by the employer.

The percentage tables are published regularly and there were updated figures published as part of the Autumn Statement to give us the benefit figures applying up to 5 April 2028.

For cars registered on or after 6 April 2020, the current figures (applying up to 5 April 2025) are as follows:

<u>CO<sub>2</sub> emissions</u>	<u>Electric range</u>	<u>Relevant percentage</u>
0	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
60 – 64	N/A	17
65 – 69	N/A	18
70 – 74	N/A	19
75 – 79	N/A	20
80 – 84	N/A	21
85 – 89	N/A	22
90 – 94	N/A	23
95 – 99	N/A	24
100 – 104	N/A	25
105 – 109	N/A	26
110 – 114	N/A	27
115 – 119	N/A	28
120 – 124	N/A	29
125 – 129	N/A	30
130 – 134	N/A	31
135 – 139	N/A	32
140 – 144	N/A	33
145 – 149	N/A	34
150 – 154	N/A	35
155 – 159	N/A	36
160 and over	N/A	37

The figures that have been announced for later years are as follows:

<u>CO<sub>2</sub> emissions</u>	<u>Electric range</u>	<u>2025/26</u>	<u>2026/27</u>	<u>2027/28</u>
0	N/A	3	4	5
1 – 50	>130	3	4	5
	70 – 129	6	7	8
	40 – 69	9	10	11
	30 – 39	13	14	15
	<30	15	16	17
51 – 54	N/A	16	17	18
55 – 59	N/A	17	18	19
60 – 64	N/A	18	19	20
65 – 69	N/A	19	20	21
70 – 74	N/A	20	21	21
75 – 79	N/A	21	21	21
80 – 84	N/A	22	22	22
85 – 89	N/A	23	23	23
90 – 94	N/A	24	24	24
95 – 99	N/A	25	25	25
100 – 104	N/A	26	26	26
105 – 109	N/A	27	27	27
110 – 114	N/A	28	28	28
115 – 119	N/A	29	29	29
120 – 124	N/A	30	30	30
125 – 129	N/A	31	31	31
130 – 134	N/A	32	32	32
135 – 139	N/A	33	33	33
140 – 144	N/A	34	34	34
145 – 149	N/A	35	35	35
150 – 154	N/A	36	36	36
155 and over	N/A	37	37	37

It can be seen that the focus is very much on increasing the benefit levels for lower emitting vehicles and that is an interesting policy approach by the Government. What does this mean in practice? We are going to look at the increase in the cash equivalent and associated tax cost for a range of vehicles. For comparison purposes, the 2022/23 Class 1A has been calculated at 13.8%, rather than 14.53%.

#### *Example 1*

A Tesla Model Y RWD 5Dr Auto has a list price of £51,935. It has emissions of zero as it is a fully electric car. The cash equivalent and tax cost will be as follows:

Tax year	%	Cash equivalent (£)	Tax cost for higher rate taxpayer (£)	Class 1 NICs (£)
22/23	2	1,027.90	411.16	141.85
23/24	2	1,027.90	411.16	141.85
24/25	2	1,027.90	411.16	141.85
25/26	3	1,541.85	616.74	212.77
26/27	4	2,055.80	822.32	283.70
27/28	5	2,569.75	1,027.90	354.63

### Example 2

A Range Rover Sport D300 is a diesel vehicle with emissions of 200g/km and which costs £83,325 for the basic model.

The cash equivalent and tax cost will not increase as the percentage applicable to a car which is this polluting will remain at 37% for the entire period under review. The cash equivalent will be £30,830.25 and the higher rate tax on that would be £12,332. The Class 1A NICs would be £4,254.57.

### Example 3

A BMW 3 series 330e is a petrol hybrid vehicle with emissions of 31g/km and electric range of 34 miles. The list price is £41,375.

Tax year	%	Cash equivalent (£)	Tax cost for higher rate taxpayer (£)	Class 1 NICs (£)
22/23	12	4,965	1,986	685.17
23/24	12	4,965	1,986	685.17
24/25	12	4,965	1,986	685.17
25/26	13	5,378.75	2,151.50	742.27
26/27	14	5,792.50	2,317	799.37
27/28	15	6,206.25	2,482.50	930.94

### Comparison of different options

One question that is often asked by clients is the cost of providing a company car versus providing additional salary as a 'car allowance'.

To be honest there are many variables which have to be taken into account but we can look at a very simple example which shows how you might start to do a very simple calculation of the different options.

Let's say you have someone who is going to offer a client a car which has a list price of £31,850 with CO<sub>2</sub> emissions of 121g/km. The business is going to lease the vehicle at a cost of £410 per month. There is business mileage of 25,000 per year and private mileage of 6,000 miles per annum. The estimated fuel cost is around £6,000 per year and this is paid by the employer. The insurance and road tax are going to be around £1,100 per year. The lease contract includes all maintenance and servicing. It has been suggested that the employer would be prepared to pay £500 per month extra as an alternative car allowance. The individual is a higher rate taxpayer.

What are the relative costs to the company and the employee? These calculations ignore the VAT cost and all prices quoted above are net of VAT.

### Benefit in kind

The percentage relevant to a car with these emissions is 30%. The car benefit is going to be £31,850 x 30% = £9,555 and the cost in tax terms is £9,555 x 40% = £3,822.

The car fuel multiplier for 2023/24 is £27,855. The car fuel benefit will be £8,356.50 at a tax cost of £3,342.60.

The total cost to the individual is therefore £7,164.60.

The Class 1A cost will be £1,318.59 for the car benefit and £1,153.20 for the fuel benefit.

#### *Cost to company*

The company has the following costs:

Lease cost	410 x 12	£4,920
Class 1A		£2,471
Fuel		£6,000
Other costs		<u>£1,100</u>
		£14,491
Less CT relief (main rate)		<u>(£3,622)</u>
Total cost		<u>£10,869</u>

#### *Provision of additional salary*

The company will pay business mileage of  $(10,000 \times 45p) + (15,000 \times 20p) = £8,250$ .

If the additional salary is £6,000 per annum the cost to the company will be this amount plus the Class 1 NICs, so a total of  $£6,000 \times 113.8\% = £6,828$ .

Both of these amounts will be allowable for corporation tax purposes, so the net cost would be  $(£8,250 + £6,828) \times 75\% = £11,308.50$  assuming this is paying tax at the main rate.

For the individual, they will pay tax and NIC (at 2%) on the salary so will be left with a net amount of  $£6,000 \times 58\% = £3,480$  plus the mileage they receive of £8,250 which is a total of £11,730.

The individual will have to pay for fuel (£6,000) and other costs (£1,100) = £7,100. This leaves them with a net amount of £4,630 per annum towards paying for the cost of the car itself. This is slightly less than the leasing cost although they may not be able to lease on such favourable terms.

#### *Conclusion*

The decision as to whether to offer a vehicle or an allowance will often be more down to the preference of the employer rather than the cost of the different options. From a planning perspective, it might be worth looking at whether or not the fuel benefit charge needs to be paid. Let us say that the advisory fuel rate for the vehicle is 17ppm.

If the individual is undertaking 6,000 miles per annum it would cost them £1,020 to reimburse their employer for the private miles rather than having to pay £3,342 in tax for the fuel benefit. The employer would also save the Class 1A NICs on this benefit.

The downside is having to keep accurate records to determine the exact level of the private miles!

*Contributed by Ros Martin*