

## Reimbursing business mileage (Lecture B1403 – 23.50 minutes)

### *Reimbursing an employee for using their own vehicle for business mileage*

Where an employee uses their own car, van, motorcycle or bicycle, for business mileage they can make a claim for reimbursement from their employer. Records should be maintained of miles travelled and purpose of journey. Other motor expenses incurred during a business journey such as parking or tolls or subsistence can be paid in addition to the mileage reimbursement and would be tax free subject to evidence/receipt.

The sum reimbursed for mileage can be paid tax free if the employer uses the rates set by HMRC – see below. Should the employer decide to pay at a higher rate there will be tax and NIC implications. HMRC set the rates for “Approved Mileage Allowance Payments “ (AMAP) back in 2011 - the rate has not increase since then.

### *Tax Exempt Amount – AMAP*

<b>Car or Van</b>	45p per mile for first 10,000 business miles in a tax year (Includes electric) 25p a mile thereafter
<b>Motorcycle</b>	24p per mile
<b>Bicycle</b>	20p per mile
<b>Passenger</b>	5p per mile per passenger on business journey (own car, van or company car or van only)

To be tax free the reimbursed amount paid to the employee should be calculated as the business miles travelled multiplied by AMAP set out above. Employers need to reduce the rate used for cars and vans where the employee has travelled more than 10,000 business miles in the tax year from 45p to 25p a mile.

Where an employee receives payments from 2 or more associated employments all business travel is treated as relating to a single employment when calculating the 10,000 business miles limit.

### *Passenger payment*

Should an employee take a number of colleagues with them on a business journey they can claim the 5p a mile passenger payment per passenger. For example, if the driver takes 3 passengers they can claim, tax free, a further 15p a mile.

The same applies where an employee with a company car or van on which they are chargeable to a car or van benefit takes passengers. The tax-free passenger payment can also be paid but the employer would not use the AMAP for the actual miles as they only apply to employer owned vans or cars.

### *Using a lower rate than AMAP*

Some employers may decide to reimburse employees at a lower rate than the AMAP. In such cases the employee can claim the tax relief on difference on their Self Assessment tax return.



### *Paying higher rates*

Some employers may decide not to use HMRC tax free rates but to pay at rates that exceed the approved amount. In this case the *excess* over the AMAP must be reported in Section E of the P11D form for tax to be collected by HMRC. Any national insurance due would be calculated through the payroll but this would depend on mileage rate used – see below.

### *National Insurance*

The rules vary from above. Class 1, payroll NIC, is ONLY payable where the reimbursement of mileage is paid above the 45p figure. Where the employer uses the HMRC approved rates no NICs would be due.

To calculate the figure subject to NIC the employer must first calculate the amount being paid, known as relevant motoring expense, (RME). From this they deduct or disregard what is known as the qualifying amount (QA). This is calculated by multiplying the employee's business miles in the earnings period by the applicable AMAP rate listed above, except that the 45p rate is not reduced for over 10,000 miles.

If the RME paid to an employee in the earnings period exceeds the QA the excess should be added to earnings for that earnings period for NIC calculation BUT not PAYE. Where the RME paid is below the QA there is nothing to report.

### *Example*

In October 2023 an employee travels 1,250 business miles in the earnings period. They have already exceeded the 10,000 miles threshold. The employer reimburses at 50p per mile.

The NIC position would be:

RME 1,250 miles @ 50p	625.00
QA 1,250 miles @ 45p AMAP	<u>562.50</u>
Excess subject to NIC via payroll	<u>£62.50</u>

BUT the tax position would be:

RME 1,250 miles @ 50p	625.00
QA 1,250 miles @ 25p AMAP	<u>312.50</u>
Excess subject to TAX	<u>£312.50</u>

The £312.50 is reported to HMRC on the 2023/24 P11D section E

### *General Round Sum Allowance paid to Employee for using Own Vehicle*

Where an employer pays an employee a round sum cash allowance for using their own car for business purposes the allowance should be dealt with through the payroll and subject to deduction of PAYE and NIC. It should be treated as a round sum allowance as it can be spent as the employee wishes. However, the employee can make a claim, on their tax return, for tax relief on business mileage using the AMAPs above, for expenses incurred wholly, exclusively and necessarily in the performance of employment duties.

### *Paying an Allowance to An Employee instead of providing a Company Car*

Due to rising costs many employers may consider offering an employee a car allowance rather than providing them with a company car. From the company's view they do not have company funds tied up in the purchase or lease of a car. Nor do they have to pay the costs of insurance, servicing, repairs, roadside recovery and depreciation.

Instead, they pay the employee a sum each month, as a car allowance, which is processed through the payroll so subject to tax and NIC. The employee receives the funds through net pay and can use the money as they wish, towards the cost of buying or leasing a car or to repay their mortgage. It is important the employee understands that a car allowance of say £750 is a gross figure and they will receive a lower figure after deductions.

When reimbursing business mileage, the employee should be treated as using their own car and not a company car. Therefore, business miles are reimbursed at AMAP rates and not the advisory fuel rates below.

If the rates paid by the employer are less than AMAP rates they can claim tax relief on business mileage through their Self Assessment tax return.

### *Taxable Benefit (Fuel Scale charge) for Company Car available for private use*

Where the employer pays all the fuel costs for an employee with a company car, whether the fuel is used on business travel or private, a taxable benefit arises – known as the fuel scale charge. This taxable benefit is reported on the form P11D.

For 2023/24 tax year the taxable benefit for fuel is calculated by multiplying a fixed figure by a percentage. From 6 April 2023 the fixed figure is £27,800, increased from £25,300. The percentage figure is the same used to calculate the car benefit charge for the year and ranges from 2% to 37% depending on the CO<sub>2</sub> emissions and electric range.

### *Reducing fuel benefit to NIL*

To reduce the fuel benefit to zero, the employee must either be required to "make good" the cost of private motoring, including home to work travel, or the fuel must only be supplied for business journeys.

When "making good" the cost of private travel the employee can replace the fuel used for private purposes by buying fuel from their own pocket or by direct payment to the employer. The employee must keep accurate mileage records to identify both business and private journeys.

The advisory fuel rates, see below, for company car mileage can be used to "make good" the private mileage to ensure the fuel scale benefit does not arise. Any making good must be completed by 6 July following the end of the tax year, if this is not the case it will not be taken into account.

### *Reimbursing Business Mileage for company car where fuel not paid for by employer*

Where an employee has a company car but pays for fuel personally they can claim for business mileage undertaken in their company car. Records should be maintained of miles travelled and purpose of journey.

The sum reimbursed for mileage can be paid tax free if the employer uses the advisory fuel rates set by HMRC – see below. HMRC set these rates each quarter so employers must ensure they are using the correct rates in each quarter.

### *Advisory Fuel Rates for business miles where employee is provided with a company car*

<u>Engine Size</u>	<u>Petrol</u>	<u>LPG</u>	<u>Diesel</u>
Current fuel costs per HMRC	£1.462	87.3p	£1.482
<u>From 1 September 2023</u>			
1,400cc or less	13p	10p	
1,401 to 2,000	16p	12p	
Over 2,000	25p	19p	
1,600cc or less			12p
1,601 to 2,000			14p
Over 2,000			19p
<u>From 1 June 2023 to 31 August 2023</u>			
1,400cc or less	14p	10p	
1,401 to 2,000	17p	12p	
Over 2,000	26p	18p	
1,600cc or less			14p
1,601 to 2,000			17p
Over 2,000			22p

*See HMRC guidance for rates for earlier quarters*

Hybrid cars are treated as either petrol or diesel cars for advisory fuel rates. Electricity is not a fuel for car fuel benefit purposes.

### **Fully Electric Cars**

The advisory rate for a fully electric car is 10p per mile from 1st September 2023 previously 9p from 1 March 2023 to 31 August 2023, 8p from 1 December 2022 to 28 February 2023.

### *Opting out of fuel benefit for company car*

Employees can opt out of free fuel at any time during the tax year and enjoy a proportional reduction in their fuel scale charge benefit. The employees are not permitted to opt back into the benefit later in the same tax year.

*Tax position for paying for charging electric cars*

Company car - car owned or hired by employer:

Employer pays to charge car - there is nothing to report – no benefit regardless of whether business or private mileage.

Employee pays to charge car – employee can claim for business miles at tax free rate 10p a mile.

Employee pays to charge car and employer reimburses:

- Business and private use - treat total reimbursement as earnings and employee can claim tax relief for business mileage at 10p
- Only business miles at 10p - nothing to report
- Only private use – treat reimbursements as earnings through payroll

Employee car – car owned or hired by employee

Employer pays to charge car at workplace or near workplace – taxable benefit on total cost of electricity and employee can claim AMAP for business miles *at 45p a mile*.

Employer pays to charge elsewhere:

- business mileage only - cost of electricity is reported as a benefit and employee should claim for AMAP for business miles at 45p
- private journeys only – cost of electricity is reported as a benefit
- both business and private journeys – cost of electricity is reported as a benefit and employee should claim for AMAP at 45p for business miles

Employee pays to charge car - they can claim AMAP at 45p re business miles

Employee pays to charge car and employer reimburses per mile:

- Only business use - there is nothing to report if miles claimed at AMAP 45p
- Only private use – treat reimbursements as earnings so payroll
- Business & private use - treat total reimbursement as earnings and employee claims business mileage relief at 45p

Employee pays to charge car and employer reimburses a flat rate per month:

- Only business use – treat flat rate as earnings and employee claims business miles relief at 45p per mile
- Only private use – treat reimbursements as earnings so payroll
- Business & private use - treat reimbursement as earnings and employee claims business mileage relief at 45p a mile

## *Company Vans*

Class 1A NIC due – BOX G of the P11D Form

Vans available but not for private use - the scale charge is **NIL** where both conditions are satisfied for all of the tax year:

- Only be available to employee for business travel and commuting – must not in fact be used for any other private purpose except to an insignificant extent
- Be available to employee mainly for use for the employee's business travel

Private use is "Insignificant" if it is:

- A few days in the tax year as a whole
- Insignificant in quality – a week's private use is not insignificant
- Intermittent or irregular
- The exception in terms of pattern of use

For example – a trip to the dentist on the way to work, stopping at the newsagents, trip to the tip would count as insignificant. Whereas doing the weekly shop, going on holiday in the van, using the van for social activities would create a taxable benefit.

Vans available for private use – for 2023/24 the cash equivalent of a company van available for private use is £3,960 increasing from £3,600 for 2022/23. There is no reduction for the age of the van. A zero-emission van is, per HMRC, "one that cannot emit CO<sub>2</sub> by being driven" and for tax years 2021 to 2022 onwards the cash equivalent is NIL.

The scale charge can be reduced:

- (a) when the van is unavailable for 30 consecutive days or more,
- (b) if the van is shared with other employees or
- (c) payments are made for any private use.

For shared vans the taxable benefit is calculated and then the benefit is apportioned in a reasonable basis between those employees who have concurrent use. The total charge for a shared van should be the same as if one employee has used it.

In order to reduce the benefit by the payments made for private use there must be a requirement to pay and the employee must be paid before the 6<sup>th</sup> July following the end of the tax year.

Fuel scale charge for company van – A separate fuel scale charge applies where fuel is provided for private motoring in a company van. The cash equivalent for 2023/24 is set at £757 and was £688 for 2022/23. This can be reduced to NIL if the employee is required to either pay for the cost of fuel for private motoring and does so or replaces the fuel used.

*Contributed by Alexandra Durrant*