

Mileage Rates & Electric Cars

(Lecture B1097 - 11.17 minutes)

Advisory Fuel Rates

The Advisory Fuel Rates (AFR) only apply when an employer either:

- Reimburses an employee for business travel in a company car; or
- Requires an employee to repay the cost of fuel used for private travel (for instance fuel purchased using a company fuel card).

The Advisory Fuel Rates are different from and separate to Approved Mileage Allowance Payments (AMAPs). AMAPs are payments made to employees for the use of their own vehicle for business purposes. AMAP rates are higher than AFRs as the AMAP rates are designed to include non-fuel costs such as insurance, road tax, servicing and maintenance, all of which would be met by the employer when a company car is provided. Current AMAP rates for cars are 45p per mile for the first 10,000 business miles per tax year and 25p per mile thereafter. The AMAP rate for motorbikes is 24p and cycles is 20p and these rates do not change once 10,000 miles are exceeded.

The Advisory Fuel Rates from 1 September 2018 are:

<u>Engine size</u>	<u>Petrol</u>	<u>LPG</u>
	(Amount per mile)	(Amount per mile)
1,400 cc or less	12p	7p
1,401 – 2,000 cc	15p	9p
Over 2,000 cc	22p	13p

There are different rates for diesel cars;

<u>Engine size</u>	<u>Diesel</u>
	(Amount per mile)
1,600 cc or less	10p
1,601 – 2,000 cc	12p
Over 2,000 cc	13p

There are no special rates for hybrid cars. Hybrids are treated as either petrol or diesel depending on the fuel source.

Tax effects of AFR payments

If an employer pays a rate per mile for business travel no higher than the AFR for the particular engine size and fuel type, HMRC accepts there is no taxable benefit. Payments at or below the AFR are tax and NIC free. No records need to be kept to support the claim. No entries are made on P11Ds or SA returns.

This is particularly generous for hybrid cars as it means that employers can make tax-free payments to their employees at the AFR rates even in cases where the business journey was undertaken wholly or partly using the electric mode of the vehicle. The employee is thereby receiving a tax-free payment for fuel expenses when no fuel is being consumed.

Employers are free to use their own rates of reimbursement in cases where the cost of business travel is higher than the HMRC guideline rates. Supporting evidence is required to justify such payments.

If an employer pays at a rate in excess of the AFR and cannot demonstrate that the fuel cost per mile is higher than HMRC's published rates, a tax charge will arise. The taxable benefit is the excess payment above the AFR. The benefit should be disclosed on the P11D. The excess payment is earnings for Class 1 National Insurance purposes. This means that the excess payment should be subjected to employer and employee NIC through payroll.

Note here that there is no fuel benefit as fuel is not being provided for private mileage.

Electric cars

Manufacturers are pumping billions into the development of electric cars (and hybrid plug-ins) and as a consequence of this we are seeing more and more companies offering Alternative Fuel Vehicles as part of their benefits package. With car benefits for electric cars being reduced to just 2% of the list price from April 2020 (and benefit percentages for hybrids also falling), the choice of ultra-low emission vehicles (ULEVs) by employees makes perfect sense. The knock-on benefits of ULEVs in the form of lower road tax and exemptions from the London congestion charge all adds to the momentum.

Where electric cars are used for business journeys, the employer cannot make tax-free AFR payments to employees as electricity isn't a fuel. Such payments would therefore give rise to a taxable benefit.

However, running an electric car isn't cost-free as electricity isn't a free commodity and has to be paid for. Therefore, if an employee charges his electric car at home then uses that car for business mileage, it is reasonable that such costs should be reimbursed by the employer without tax consequence. The difficulty is working out the cost.

Until recently this was done by the employee estimating the costs of charging the car battery, calculating the average range of the car on that charged battery and, by dividing the former by the latter, deducing the average electricity cost per mile of running the car. This average would of course depend on the make of car and the particular energy tariff to which the employee was subscribed to, but industry figures suggest that for employees charging their vehicles overnight (when electricity is cheaper) a cost per mile of somewhere around 3.75p would be the norm. The cost per mile could be as much as 6p if different energy tariffs applied.

As an alternative, employers could calculate their own reimbursement mileage rate using the manufacturers' specified 'miles per kWh figure' and the actual electricity costs of charging the vehicle, but as the latter were obtained from the employee and were again tariff dependent, this hardly made the process much simpler.

Things have become an awful lot easier from 1 September 2018 because, in the wake of mounting pressure from the industry, HMRC has introduced a new Advisory Electricity Rate (AER). Employers can now pay up to the Advisory Electricity Rate when reimbursing their employees for business travel in a fully electric company car without this giving rise to a taxable benefit.

The AER has been set at 4 pence per mile. Hybrid cars will continue to be treated as either petrol or diesel vehicles for mileage reimbursement purposes (no separate hybrid rate has been published).

On a similar basis to Advisory Fuel Rates, employers can use their own rate which better reflects their circumstances if, for example, their cars are more efficient, or if the cost of business travel is higher than the guideline rate. However, if employers pay a rate that is higher than the AER and they cannot demonstrate that the electricity cost per mile is higher, the excess will be taxed as a benefit and treated as earnings for Class 1 NICs. To avoid the compliance hassles associated with what will be relatively small sums of money, it is imagined that the vast majority of employers will reimburse at 4p and be done with it.

It may be that an employee will need to charge his car on-the-go at a public charging site. Many public charging sites are free. However, if the employee has to pay for a charge – and does so via a company credit card – there should be no tax charge if the company is only paying to charge the vehicle for business mileage. If not, the company should ask the employee to contribute the “private” element to avoid a tax / NIC charge.

As an aside here it is worth mentioning that from 6 April 2018, employees charging their electric vehicle at work – be that a company provided car or their own car - are not liable to pay tax on the value of the electricity used. However the provision by an employer of a chargepoint for an employee at their home does give rise to a taxable benefit based on the cost of providing that chargepoint. There is no apportionment of this benefit based on business and private mileage.

Mileage expenses for private electric vehicles

The new AER rate only applies for company-provided electric cars.

Where an employee uses his own electric car for work purposes, reimbursement can be made at the AMAP rates (45p per mile up to 10,000 miles, 25p per mile thereafter).

This is because AMAP is not fuel dependent and incorporates the general costs of owning and running the car.

Employees doing a reasonable amount of business mileage may therefore be better off by taking the cash allowance offered by many employers (albeit that this will be taxable as salary) and purchasing their own electric vehicles to use for work.

With average electricity costs of 4-5p per mile and no road tax, an employee will receive substantially more in compensation than he actually spends in running the car. For example, an employee doing 10,000 business miles in the tax year (an average of just 40 miles a day) who receives a 45p per mile allowance from his employer, would be making a tax-free profit of circa £4,000 (equating to a pay rise of £7,000 gross). Plus it's good for both the environment and the conscience.

If an employer does not fully reimburse an employee for the cost of business mileage in the employee's own electric car in accordance with the AMAP rules, that employee is entitled to tax relief on the remainder of this amount. Some employers may have a policy of paying a lower amount per business mile to employees using their own electric cars to more closely reflect actual costs. Employees in this position can make an expense claim for the difference between the reimbursed rate and 45p via their SA returns.

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