

CHAPTER 16

COMPANY CAR & FUEL BENEFITS

16.1 Introduction

One of the most common benefits offered by employers to their employees is the provision of a company car and fuel for private motoring. Latest Treasury figures show that in 2007/08 over 1 million company cars had been provided to directors and employees. These had an overall taxable benefit value of £4 billion and the fuel benefit charge took the total taxable value to just short of £5 billion. Almost £2.5 billion pounds is raised per year in tax and NIC on company cars - which is comparable to the total raised by IHT.

[ITEPA 2003, s.114- s.172](#)

If a car is provided to a lower paid employee who is not a director, **the benefit is tax free.**

[ITEPA 2003, s.216\(4\)](#)

For other employees, special rules exist to enable us to calculate the cash equivalent on the provision of a company car. If a car is made available by an employee for the exclusive use of a particular employee, it doesn't matter whether the car is owned by the employer or leased by the employer from a third party, the **employee will have a taxable benefit in respect of the private use of the car.** The cash equivalent depends on a number of factors.

[ITEPA 2003, s.120 & s.121](#)

The starting point in calculating car benefits is the **list price** of the car when it is first registered (i.e. when brand new). This is not necessarily the same as the price actually paid by the employer for the car.

[ITEPA 2003, s.122](#)

The cash equivalent also depends on the vehicle's **carbon dioxide (CO₂) emissions.** Essentially, the **lower the emissions, the lower the benefit.** This is an attempt by the government to be responsible with regard to the protection of the environment.

[ITEPA 2003, s.139](#)

Also the benefit depends on **whether the car was available for the whole of the year.** As is the case with most benefits, if the employee does not have the benefit for the whole of the year, we need to do an apportionment to arrive at the cash equivalent.

[ITEPA 2003, s.143](#)

Later on in this chapter we will look at the separate benefit that arises when an employer provides the employee with fuel for his or her private motoring.

[ITEPA 2003, s.149](#)

16.2 List price

We will now put all of these variables together into a company car proforma:

	£
List price when new	A
Accessories	B
Less: capital contributions (max £5,000)	<u>(C)</u>
Revised list price (capped at £80,000)	<u>D</u>

We start with the **list price of the car** when new and to this we **add on the cost of any accessories** provided with the car. For example if you buy a new car, the garage will charge you extra if you want leather seats or a CD player etc, so we need to add these items on.

[ITEPA 2003, s.121](#)

[ITEPA 2003, s.125](#)

The next step is to **deduct any capital contributions** made to the employer by the employee. A capital contribution is a one-off payment made by the employee to enable the employer to provide a better car.

[ITEPA 2003, s.132](#)

List price, plus accessories, minus capital contributions gives a revised list price which in the proforma we have called "D". This list price **cannot exceed £80,000** for tax purposes. However, this limit will be removed from 2011/12

[ITEPA 2003, s.121](#)

If an accessory is added to the car after it was first made available to the employee, we only need to add on the cost to the list price if the accessory cost more than £100. If not, we can ignore it.

[ITEPA 2003, s.126](#)

With regard to **capital contributions**, the **maximum deduction** from the list price is **£5,000**. If an employee makes a capital contribution of £1,000, this amount is deducted from the list price. However if an employee makes a capital contribution of £6,000, the list price is reduced by £5,000 only.

[ITEPA 2003, s.132\(3\)](#)

16.3 Cash Equivalent

The basic cash equivalent is the **list price**, multiplied by a certain percentage. This percentage will depend on the amount of CO₂ emitted by the car. The maximum charge is **35%**. If the car cannot emit CO₂, there will be no benefit charge for 2010/11 to 2014/15. From 2015/16 onwards the percentage used to calculate the benefit will be 9%.

[ITEPA 2003, s.139\(2\) & \(3\)](#)

[ITEPA 2003, s.140](#)

We can see two things here. Firstly the benefit depends on the **type of car** we have - the more expensive the car, the higher the benefit. Secondly, employees who drive around in large cars with **high CO₂ emissions** will pay more tax than those who are more environmentally friendly and have use of cars with low emissions.

The list price, multiplied by the appropriate percentage gives us the **basic cash equivalent**.

The benefit is reduced **if the car has not been available** to the employee **for the whole of the tax year**. For example, the employee may have been given use of the car part way through the year or he may have returned the car to the employer before the end of the year. We do a **pro-rata apportionment** by removing the number of months during which the car was not available to the employee.

[ITEPA 2003, s.143\(1\)](#)

For example, if a taxpayer joined a company on, say, 1 January 2011 and was given use of a car on that date, that person will have had the car for only 3 months of 2010/11. We therefore remove nine twelfths of the car benefit.

As is the case for the vast majority of benefits, if the employee is required to make a contribution towards the benefit and actually does so, these contributions reduce the cash equivalent. This is quite common in practice as with many car schemes, employees make monthly contributions to their employer for the use of the car. These reduce the taxable benefit. However, the payments must be specifically for the private use of the car. If the contribution is towards a specific aspect of the car's running costs, such as insurance or is to enable an employee to have use of a more expensive car, then the payments will not be deductible. Agreements entered into in respect of payments in relation to a company car should therefore be structured carefully or are likely to be successfully challenged by HMRC.

[ITEPA 2003, s.144](#)

Here is the rest of the proforma to find the car benefit for the tax year. The final cash equivalent will be entered by the employer on to the employee's P11D:

	£
Revised list price	<u>D</u>
Basic cash equivalent	E
D x %	
- depends on CO ₂ emissions	
- maximum 35%	
Less: non availability (n/12)	(F)
	<u>G</u>
Less: employee contributions	(H)
Car Benefit	<u>I</u>

16.4 Determining the percentage

[ITEPA 2003, s.133](#)

The next step is to determine the relevant percentage. List price is multiplied by a percentage which depends entirely on the car's recorded CO₂ emissions. The higher the emissions, the higher the percentage.

Carbon dioxide emissions are measured in terms of the **grams per kilometre (g/km)** of gas emitted from the car.

As we have seen, if the car cannot emit CO_2 , there will be no benefit in 2010/11 to 2014/15 this is actually achieved by multiplying the list price by a percentage of 0%!

[ITEPA 2003, s.140\(3A\)](#)

The benefit in respect of low emission cars that emit CO_2 at a rate of 75g/km or less will be calculated at a rate of 5%.

[ITEPA 2003, s.139\(2\)](#)

Where low emission cars emit CO_2 at a rate 76g/km to 120g/km, the benefit will be calculated using a percentage of 10%.

For 2010/11 there is a "baseline" figure of **130 g/km** for all other cars. This means that all cars emitting CO_2 at a rate of 121 - 130 g/km will be taxed at the **minimum rate of 15%**. The baseline will reduce to 125g/km in 2011/12.

[ITEPA 2003, s.139\(4\)](#)

The minimum percentage will **increase by 1 for each additional 5 g/km of CO_2 emitted above 130**. For example, a car with recorded CO_2 emissions of 135 grams per kilometre, will be taxed using a percentage of 16%, and so on.

[ITEPA 2003, s.139\(3\)](#)

The formula for calculating the percentage is:

$$\% = [(Emissions - 130) \div 5] + 15\%$$

We take the CO_2 emissions of the car and deduct the baseline figure of 130. We divide the result by 5 and add it to the minimum of 15% to give the relevant percentage. This is then multiplied by the list price of the car to give the basic cash equivalent.

Illustration 1

An employee has use of a company car with a list price of £20,000. Accessories are added to the car at a cost of £2,000. The employee made a one-off capital contribution of £4,000 for the use of the car. The car has recorded CO_2 emissions of 185 g/km.

	£
List price	20,000
Add: Accessories	2,000
Less: Capital contribution	<u>(4,000)</u>
Revised list price	<u>£18,000</u>
Cash equivalent	£
£18,000 × 26% [(185-130) ÷ 5 = 11 + 15]	<u>4,680</u>

16.5 Further points

In reality, CO₂ emissions figures are **exact numbers** and are not rounded to the nearest whole multiple of 5. For tax purposes, we are allowed to **round down to the nearest 5 g/km**.

[ITEPA 2003, s.139\(5\)](#)

For example, if a car has a CO₂ emissions figure of 199 g/km, we would round this down to 195 to determine the percentage.

The percentage can **never exceed 35%**. This rate will therefore apply for all cars with an emissions figure of 230 g/km or above.

There is a **3% supplement** for cars which run on **diesel** - i.e. an additional 3% is added to the relevant percentage. This is because diesel engines are less environmentally friendly than petrol engines. The 3% supplement **cannot** take the relevant percentage **above 35%**.

[ITEPA 2003, s.141](#)

There are discounts for cars running on road fuel gas (e.g. liquid petroleum gas or LPG). There is also a 2% discount for cars running on bio-ethanol. These reductions will be withdrawn from 2011/12.

[ITEPA 2003, s.146](#)

16.6 No emissions figure

Certain vehicles, particularly old ones, will have no recognised or recorded CO₂ emissions figure. In these cases, where the car does actually emit CO₂, the percentage we use to calculate the benefit will be **based on the engine size** of the vehicle. The engine size is measured in terms of the vehicle cylinder capacity in cubic centimetres.

[ITEPA 2003, s.140,](#)

[ITEPA 2003, s.142](#)

The percentages for cars registered **before 1 January 1998** are shown in the table below and rise from a minimum of **15%** for small cars to **32%** for larger vehicles.

The percentages are slightly different for cars registered on or **after 1 January 1998**. Again the minimum is **15%**, this time rising to the usual upper limit of **35%**.

Once again, a **3% supplement** is added for **diesel** cars, again capped at a maximum of 35%.

<i>Engine Size</i>	<i>Pre 1.1.98</i>	<i>Post 1.1.98</i>
0 - 1,400 cc	15%	15%
1,401 - 2,000 cc	22%	25%
over 2,000 cc	32%	35%

16.7 Non-availability

[ITEPA 2003,
s.143](#)

The benefit is reduced if the employee does not have use of the car throughout the whole of the tax year. This will apply if an employee **joins** a company part way through the year and is given use of a car, or if an employee **leaves** the company and has to return the car.

Apportionment is done on a monthly basis by removing the benefit arising in the period in which the employee did not have use of the car.

If a car is being repaired or serviced, or having its MOT, a non-availability deduction can only be made if the car is off the road for a continuous period of **at least 30 days**.

[ITEPA 2003,
s.143\(2\)](#)

So, if the car is in the garage for one week having a few minor repairs, this will have no effect whatsoever on the car benefit calculation. However if the car is involved in a serious accident and is off the road for, say, 2 months, we would take a non-availability deduction of 2 out of 12 months.

Illustration 2

An employee has use of a company car with a list price of £12,000. The car has a CO₂ emissions level of 142 g/km. The employee is given use of the car for the first time on 1 July 2010. The employee makes contributions of £40 per month to the employer for the use of the car.

During the year, the car was off the road for 3 weeks having some minor repairs after an accident.

To calculate the benefit for 2010/11 the starting point is the list price of £12,000. We multiply this by a percentage based on the car's CO₂ emissions, which is 142 g/km. As this is not exactly divisible by 5, we round down and use an emissions figure of 140 in the formula.

As the car was only available to the employee from 1 July 2010 - i.e. for 9 months of the tax year - we must take a non-availability deduction for 3/12ths of the benefit. Note that no reduction has been made for the 3 weeks during which the car was being repaired as this period is less than 30 days.

The employee is required to make a contribution of £40 per month for the use of the car. As is the case for the majority of benefits, employee contributions act to reduce the cash equivalent.

	£
List price	<u>12,000</u>
Cash equivalent	
12,000 × 17% [(140 - 130) ÷ 5 = 2 + 15]	2,040
Less: non-availability	
$\frac{3}{12} \times 2,040$	(510)
Less: contributions	
40 × 9	<u>(360)</u>
Benefit	<u>£1,170</u>

16.8 More than one car

An employee may have use of two company cars or he may have one car himself and a second car for a member of his family or household.

In this instance, the employee simply has **two benefits**, each calculated in the same way - i.e. using list price and CO₂ emissions.

Note that if a car is made available by an employer for a member of the employee's family, it is the **employee who will have the benefit, not the family member**.

16.9 Classic cars

[ITEPA 2003, s.147](#)

A "classic car" is one that is more than 15 years old and whose market value at the end of the tax year is more than £15,000.

If an employee is provided with a classic car, to work out the **cash equivalent** we **use the market value of the car** for the tax year instead of the list price when new, if the market value is greater.

16.10 Pool cars and emergency vehicles

[ITEPA 2003, s.167](#)

No benefit will arise if the employee has some incidental private use of a pool car. A pool car is essentially a shared vehicle which is mainly used for business purposes.

As long as private use is **incidental** and the **pool car is not normally kept overnight at the employee's residence**, no benefit will arise. Many employers have a small fleet of pool cars which are normally kept somewhere on the premises and which are used for business journeys.

There is also no taxable benefit when emergency service vehicles used by fire, police or ambulance workers are taken home when on-call.

[ITEPA 2003, s.248A](#)

16.11 Administration

Employers have to file quarterly returns to the Tax Office on form P46 (car) giving details when a car is provided to an employee.

16.12 Fuel benefits

A **separate benefit** will arise where **private fuel costs** are reimbursed. If the employer only pays for fuel for business purposes, no benefit will arise.

[ITEPA 2003, s. 149,](#)
[ITEPA 2003, s.151\(3\)](#)

If an employee is provided with fuel for private motoring, the taxable benefit is identified by using the formula below:

$$£18,000 \times \% \text{ based on } CO_2 \text{ emissions}$$

[ITEPA 2003, s. 150](#)

To calculate the appropriate percentage, we use exactly the same rules as above for car benefit purposes.

No fuel benefit will arise if an employee is required to reimburse the whole of the expense incurred by the employer in providing private fuel and actually does so. If the employee only makes a partial reimbursement, this will have no effect and the benefit will be calculated as above. Therefore an employee contribution towards the costs of private fuel will not result in a "pound-for-pound" reduction in the taxable amount as is the case for other benefits.

[ITEPA 2003, s. 151\(2\)](#)

The fuel benefit will be reduced if private use fuel is not provided to the employee for the whole of the tax year. However, if private fuel is withdrawn but then reinstated in the same tax year, the benefit charge will apply for the whole tax year. So it is not possible to opt in and out of the car fuel benefit, for example during holidays.

[ITEPA 2003, s. 152](#)

Illustration 3

Ralf is provided with a car by his employer on 1 October 2010. The car has a list price of £15,000 and CO₂ emissions of 157g/km. All fuel costs are met by the company. The costs of private fuel amounted to £2,000 of which Ralf reimbursed £750.

The taxable benefits in 2010/11 are:

	£
Car:	
$£15,000 \times 20\% [(155 - 130) \div 5 = 5\% + 15\% = 20\%]$	3,000
Less: non-availability	
$£3,000 \times 6/12$	<u>(1,500)</u>
Car benefit	1,500
Fuel benefit	
$£18,000 \times 20\% \times 6/12$	<u>1,800</u>
Total	<u>£3,300</u>

There is no reduction for partial reimbursement of private fuel. Note a reduction would have been made if Ralf had contributed £750 towards the general running costs of the car itself (rather than the fuel directly), provided that this was a condition stipulated by the employer.

Example 1

Eddie is provided with use of a Jaguar car by his employer for the whole of 2010/11. The list price is £32,000 and CO₂ emissions are 223 g/km.

Eddie pays £50 per month for the use of the car. All his petrol costs are met by the company.

Eddie uses the car for both business and private purposes.

Calculate Eddie's taxable benefit for 2010/11.

Example 2

Jensen has use of a Volvo car (list price £12,000 and CO₂ emissions 138g/km). On 1 July 2010 his employer exchanged the Volvo for an Audi (list price £14,000 and CO₂ emissions 129 g/km). The Audi runs on diesel. The company reimburse Jensen for business fuel costs only. Jensen uses the car for both business and private purposes.

Calculate Jensen's taxable benefit for 2010/11.

Answer 1

List price	<u>£32,000</u>
Cash equivalent	£
£32,000 × 33% [(220-130) ÷ 5 = 18 + 15]	10,560
Less: employee contributions (12 × £50)	<u>(600)</u>
Car Benefit	9,960
Add: Fuel benefit - £18,000 × 33%	<u>5,940</u>
Taxable Benefits	<u>£15,900</u>

Answer 2***Volvo (3 months)*****List price £12,000**

Cash equivalent	£	£
£12,000 × 16% [(135-130) ÷ 5 = 1 + 15]	1,920	
Less: non availability $£1,920 \times \frac{9}{12}$	<u>(1,440)</u>	
		480

Audi (9 months)**List price £14,000**

Cash equivalent		
£14,000 × 18% [15% + 3%] (<130g/km plus diesel supplement)	2,520	
Less: non availability $£2,520 \times \frac{3}{12}$	<u>(630)</u>	
		<u>1,890</u>
Total benefit		<u>£2,370</u>