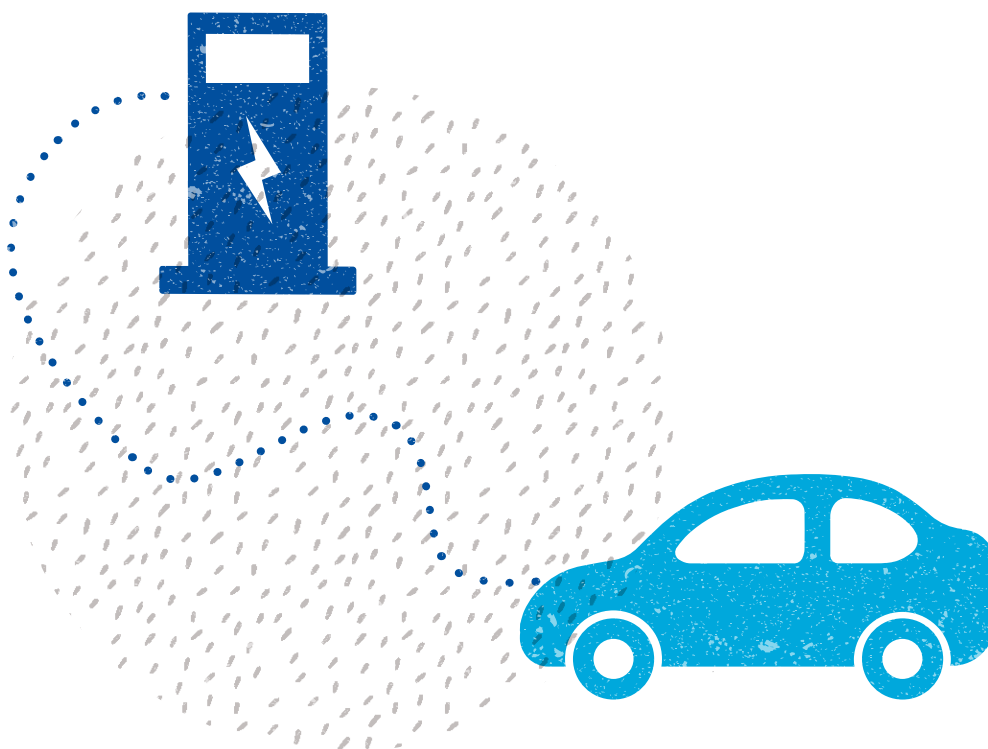


Electric cars

Top tips on tax benefits and incentives
for you and your employees



Electric cars are increasingly common on our roads and with sales of all new petrol and diesel cars banned by 2030, and volatile fuel prices, many people are considering making the move to electric now.

We are speaking to lots of clients about electric cars and what incentives are available to invest. Here are our top tips to consider when running an electric car through your business.





Does it matter if I trade through a sole trade or partnership or limited company?

You can purchase an electric car as a sole trader, partnership, or limited company.

However, if the car is going to be used for personal use as well as business, there will be a difference in terms of the reporting and taxation of personal use.

For a sole trader or partnership, only the business use proportion is allowable as a tax-deductible expense.

Company cars that have private use, including commuting to a place of work, carry benefits in kind. This must be reported through a P11D form to HMRC and the benefit in kind tax paid.

How about pool cars?

Pool cars are subject to qualifying criteria and must be 100% business use, with no personal use at all, including commuting. If qualifying, then P11Ds are not required and 100% of the VAT can be reclaimed.

Benefit in kind - are there savings for electric cars?

The benefit in kind tax rate for fully electric cars is much lower (2%) than for higher emission cars (from 5-37% depending on the level of emissions).

The benefit in kind payment is calculated from the value of the car – so for an electric car 2% of the value is the benefit in kind and then either 20% or 40% of that figure is due as payment, depending on whether the employee is a basic rate or higher rate taxpayer.

Therefore, the employee has a much reduced tax charge on the benefit of an electric car than a petrol or diesel car. Also, if the employer pays for the fuel in a petrol or diesel car for private use, then the employee will be taxed for that separately. This is not the case for electric cars.



What about VAT on cars with private use?

VAT cannot be reclaimed on any cars purchased under a straightforward cash arrangement or hire purchase. For lease and cars with balloon payments, half of the VAT can be reclaimed in line with qualifying invoices. There are different VAT treatments for lease packages including maintenance, so care should be taken here.

How should the car be financed?

There are a lot of different options available to finance a car. With long lead times for new cars, buyers may be tempted to purchase an ex-demonstrator or nearly new car instead.

However, only new and unused cars will qualify for first year allowances (100% capital allowances). Used electric cars are only subject to main rate capital allowances (18% of the carrying value).

Lease cars do not attract capital allowances, the monthly rental is instead treated as an allowable business expense.

Caution should also be taken where finance options carry a high value balloon payment at the end, as these may be treated as a lease for tax purposes and treatment can vary depending on the agreement.

Salary exchange can be used to maximise tax benefits for employers and employees

Employees exchange an amount of salary - usually the cost of the lease, in return for a car. The list price of that car is then used to calculate the benefit in kind.

For employees, they are provided with a brand new company car, and they benefit from reduced tax and national insurance contributions (NIC), as salary is exchanged before tax and national insurance payments are calculated.

Cars with CO₂ emissions under 75g/km are not subject to the optional remuneration rules which would otherwise apply to charge tax on the higher of the benefit in kind, or the salary foregone.

There can be further savings available, subject to the personal circumstances of the employees, for example lower student loan repayments or a reduction in the amount of child benefit higher rate clawback.

For employers, there are both financial and commercial advantages to introducing a low emission company car salary exchange. These schemes allow a significant reduction in employer NIC costs, a reduction in the apprenticeship levy costs and significantly lower business mileage expense claims.

Introducing a low emission car policy will help employers reduce their carbon footprint and, in our experience, employers who offer wider benefit packages to employees see improved staff satisfaction and staff retention levels.



Charging points at the office and at home

Where the employer allows cars to be recharged at work - there is no taxable benefit charge, whether it is a company car (available for private use) or the employee's own car.

If an employer pays for a charging point to be installed at the employee's home - there is no taxable benefit if the car is a company car. However, if the employee owns the car there is a taxable benefit based on the cost to the employer. In addition, the employer can claim capital allowances on the cost as well as reclaiming the VAT.

If an employer pays for a charge card of £100 per year to allow individuals unlimited access to local authority vehicle charging points - no taxable benefit for a company car, but there will be a taxable benefit based on the cost to the employer if it is the employee's own car.



There are definite benefits and incentives to invest in electric cars through your business as company vehicles.

Salary exchange in particular has many benefits for the employee and the employer from a tax and employee retention and recruitment point of view.

However, HMRC has strict requirements for a salary exchange to be effective for tax and requires a range of documentation to support the scheme.

We can provide support at all stages of salary exchange implementation including design, documentation drafting, employee communications, updating HR and payroll processes and obtaining clearance from HMRC.

We can also help with advice on benefits in kind, capital allowances and VAT.



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If you have any questions, please contact your usual PKF Francis Clark adviser or email contact@pkf-francisclark.co.uk

pkf-francisclark.co.uk

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