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Greener motoring - tax changes for employer provided cars

Changes to the tax regime for employer provided cars are due to take effect from 6 April 2020. These will affect not only an employee or director who has an employer provided car but also impact on the costs to the employer of providing the car.

An employer provided car results in a benefit to an employee or director upon which income tax is payable. The benefit is based on the vehicle's carbon dioxide (CO_2) emissions and its list price. The employer will suffer a Class 1A National Insurance Contribution (NIC) charge at 13.8% of the amount which is assessed as a benefit on the employee.

The main changes will be:

- the CO_2 emissions for cars registered from 6 April 2020 will be based on a new test procedure
- a zero tax rate will apply for 2020/21 on wholly electric cars and hybrids which have a long electric only range
- lower rates will apply for some other hybrid cars.

New emissions test standards

The use of the Worldwide harmonised Light vehicle Test Procedure (WLTP) in April 2020 is an important part of the government's shift to greener motoring. The WLTP is more accurate than the New European Driving Cycle (NEDC) test it is replacing, and car manufacturers expect it to show higher vehicle CO_2 emissions. However, for cars registered before 6 April 2020 the NEDC test will still be used.

The government carried out a review into the impact of WLTP on company car tax generally and has announced that for most company cars registered after 5 April 2020, car rates will be reduced by two percentage points for 2020/21 from the rates previously announced for that year. These car rates will however be increased by one percentage point in the following two years thus returning to planned rates by 2022/23.

Car with CO_2 emissions of 95g/km – planned rates

Tax year	NEDC test %	WLTP test %
2019/20	23	N/A
2020/21	24	22
2021/22	24	23
2022/23	24	24

The comparison above is complicated by the fact that a car with CO_2 emissions under the current test may well have fall into a higher percentage band under the WLTP test. The Vehicle Certification Agency provide a search facility which shows current and prospective CO_2 emissions for specific cars: https://carfueldata.vehicle-certification-agency.gov.uk

Zero and low emission cars

To accelerate the shift to zero-emission and very low emission cars, new tax rates and bands will be introduced in 2020/21.

What vehicles are available?

There are different types of electric vehicles (EVs): pure electric vehicles (PEVs) use rechargeable batteries and run solely from electrical power rather than an internal combustion engine and are zero-emission vehicles.

A hybrid electric vehicle (HEV) uses power from two sources, one fuelled by petrol or diesel, the other electric. HEVs will switch between the two motors and generally have a small electric-only range of a few miles.

Plug-in hybrid vehicles (PHEVs) are more advanced and fuel-efficient. PHEVs recharge their batteries from an electrical source. These vehicles have a higher electric-only range.

What will be the tax rates?

PEVs, regardless of when they were registered, will be subject to a 0% rate. Thus drivers of these cars will pay no company car tax in 2020/21. The current rate is 16%.

The rate will rise by a single percentage point in each of the following two tax years and will thus be 2% in 2022/23.

Hybrids may benefit from the introduction new performance-related bands for vehicles with emissions up to 50g/km depending on how far the hybrid vehicle can travel under electric power. In 2019/20 the percentage for cars with up to 50 CO_2 emissions is 16%. The rates become:

Cars first registered from 6 April 2020

CO_2 emissions (g/km)	Electric range (miles)	Appropriate Percentage (%)		
		2020-21	2021-22	2022-23
0	N/A	0	1	2
1-50	>130	0	1	2
1-50	70-129	3	4	5
1-50	40-69	6	7	8
1-50	30-39	10	11	12
1-50	<30	12	13	14

Cars first registered before 6 April 2020

CO_2 emissions (g/km)	Electric range (miles)	Appropriate Percentage (%)		
		2020-21	2021-22	2022-23
0	N/A	0	1	2
1-50	>130	2	2	2
1-50	70-129	5	5	5
1-50	40-69	8	8	8
1-50	30-39	12	12	12
1-50	<30	14	14	14

Cars with CO_2 emissions above 50 and up to 84 may also benefit from a rate reduction compared to the current rates. Full details can be found in Annexe A of an HM Treasury document on a review of WLTP: https://bit.ly/2r3YCE9

Other considerations

The diesel supplement

An additional supplement of 4% of the list price applies to diesel cars up to a maximum cap of 37%. The supplement does not apply to diesel hybrids, or if a car is registered after 1 September 2017 and meets the Euro Standard 6d emissions (also known as RDE2). A diesel car which meets this standard will have Fuel Type ‘F’ for the P11D and P46(Car). Otherwise the diesel code is ‘D’. From September 2018 the Euro Standard to which a car has been certified is recorded on the car’s V5c logbook.

Fuel and provision of electricity

An additional taxable benefit arises where fuel is provided by the employer for private mileage. The taxable car fuel benefit is calculated by applying the appropriate percentage to the car fuel benefit charge multiplier, which is £24,100 in 2019/20. This is an expensive benefit to provide to an employee unless the car has very low CO_2 emissions. Electricity is not regarded as a fuel for car fuel benefit purposes and as a result there is no fuel benefit if an employer pays to charge a PEV. A more recent change allows a reimbursement of electricity costs incurred by an employee at 4p per mile for business journeys for employer provided PEVs.

Hybrids are subject to normal fuel benefit rules and are subject to the normal authorised mileage rates for the costs of petrol or diesel incurred by an employee on business journeys.

However, there is no taxable benefit if the electricity is provided by workplace charging points for employer and employee provided cars. This applies to all types of EVs.

Capital allowances

The use of EVs is also being encouraged by the availability of a 100% first year allowance for expenditure on electric charge-point equipment until 31 March 2023 for corporation tax, and 5 April 2023 for income tax.

A 100% first year allowance is available for expenditure on the purchase of new and unused cars with CO_2 emissions of up to 50 g/km. This applies until 1 April 2021 (5 April 2021 for unincorporated businesses).

Expenditure on cars with CO2 emissions not exceeding 110 g/km is pooled in the main rate pool attracting an 18% writing down allowance, while those with emissions over 110 g/km form part of the special rate pool attracting a 6% writing down allowance.

The plug-in car grant

EVs may benefit from the Plug-in Car Grant. The grant is 35% of the purchase price of the car, but is capped at a maximum of £3,500. CO_2 emissions must be under 50g/km and the vehicle needs to be able to travel at least 70 miles without any emissions. Purchasers do not need to do anything to claim this grant as the dealer will include the value of the grant in the car's price.

Vehicle Excise Duty

Vehicle Excise Duty (VED) is set at a 0% rate for zero-emission cars. Cars registered after March 2017 incur a first-year rate of VED between zero and £2,070, depending on emissions, followed by a flat rate (currently £145) in subsequent years. The government has decided not to adjust the VED to reflect the introduction of WLTP.

Congestion charges and vehicle bans

London's Ultra Low Emission Zone came into force in April 2019. There are a few specific exemptions, which include vehicles that emit less than 50g/km of CO_2 with a minimum 20-mile zero-emission range.

Other cities have outlined plans to deter certain vehicles from their centre either by introducing a similar congestion charge or by banning certain vehicles, such as diesel vehicles, from entering parts of city centres.

If there is any further information you require, please do not hesitate to contact us.

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