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Driving change: your choices

Rubber hits the road with big change for business motoring from 2020

Tightrope act

Making the right decisions for your business motoring means juggling different choices and different sets of tax rules. What's more important? Petrol or diesel? Cash or car? Car - or one of the new, high-end specs of 'van' - like an off-roading twin-cab pick-up? VAT, capital allowances, payroll? And the list goes on.

From 2020, there's more to juggle - change to company car tax rules and further tax incentives for electrics and hybrids.

This Briefing advises on the most up to date information, and provides a checklist of think points to help plan a motoring strategy that's right for your business, taking maximum advantage of the new rules.

Government policy: clean green

There has been a great deal of talk about UK aspiration to lead the world in zero emission vehicle technology. The government has set out a 'Road to Zero Strategy' with the ambition for ultra-low emission models to make up at least half of new car sales by 2030. This comes on top of plans to end the sale of new conventional petrol and diesel cars and vans by 2035 or earlier, if feasible, subject to consultation. Hybrids are now also included in the plans.

Change starts now

It's an agenda that brings immediate change.

The government is using the introduction of a new emissions test procedure as an opportunity to encourage take-up of electric technology. It's changing benefit in kind calculations for employer provided cars, and adding positive tax incentives for the greenest. In terms of tax, a business purchasing a new car could feel the effect of this very soon.

Forthcoming change impacts employer provided cars. Any business providing its employees with a car available for private use could be affected. This includes family companies, or personal service companies, giving cars to directors.

New emissions test procedures from April 2020

From April 2020, new cars will be tested under the new Worldwide Harmonised Light vehicle Test Procedure (WLTP). The motor industry anticipates that this will produce higher carbon dioxide (CO₂) emissions readings.

Figures from emissions testing play a role in tax number-crunching. They help determine the vehicle excise duty paid. They also underpin benefit in kind calculations. These are based on a percentage of the list price, with the 'appropriate' percentage depending on the emissions. The transition to WLTP thus has a knock-on effect on these tax calculations.

Benefit in kind changes

The government recognises the potential problems that this would cause and the Treasury review of WLTP and vehicle taxes stated:

'For motorists choosing a new car from April 2020, this could result in an increased tax liability, compared to an identical model chosen before this date.'

As a result, it's bringing in temporary measures to smooth the transition. A new table of appropriate percentages, to be used to calculate the benefit in kind charge for cars for the years to 2022/23, is therefore substituted for those previously published. Further details can be found here bit.ly/36vK7sb.

Practically speaking, it means there are now two tables of appropriate percentages for 2020/21 and 2021/22: one for cars registered before 6 April 2020 and one for cars registered on or after 6 April 2020.

Tax incentive

- drivers of pure electric vehicles pay no company car tax in 2020/21
- this applies to all pure electric vehicles, regardless of date of registration - not just new vehicles registered from 6 April 2020
- the 0% tax rate applies only for the year 2020/21
- by contrast, the current rate is 16%.

New cars: key changes

For cars tested under WLTP, registered from 6 April 2020:

- a zero tax rate applies for 2020/21 for wholly electric cars and hybrids with a long electric only range
- note: the electric range now becomes an important determinant for percentages for cars with CO₂ emissions of 1-50g/km. The band for cars in this range is subdivided from 2020/21
- lower rates for some other hybrid cars
- for most company cars, appropriate percentages are reduced by two percentage points for 2020/21 from those originally announced
- percentages return to figures set originally by 2022/23, increasing by one percentage point per annum from 2021/22.

This is all about new cars. The introduction of WLTP for new vans runs to a different timetable. Cars registered before 6 April 2020 (and after 1 October 1999) continue to use existing New European Driving Cycle emissions figures.

Other tax incentives for electric vehicles

There is a range of incentives for electric technology, including:

- **Vehicle Excise Duty**
0% for zero emission cars
- **Plug-in car grant**
This is included in a car's price on purchase, with a maximum of £3,500 available. There are various conditions for eligibility
- **Provision of electricity as a benefit by employers**
Electricity is not considered a fuel for car fuel benefit purposes. It can be reimbursed at 4p per mile for business journeys for employer provided pure electric vehicles. Hybrids, however, don't fall under these rules
- **Workplace charging exemption**
There is no benefit in kind charge if employees are provided with the facility to charge their own electric car, or an employer provided electric car, at the workplace.

Electric vehicles: capital allowances

Adopting electric technology is also incentivised by the capital allowances rules. Cars don't generally qualify for annual investment allowance, so tax relief is only felt slowly. But for electric vehicles, there is:

- 100% first-year allowance for purchase of new and unused cars with CO₂ emissions of up to 50g/km. This applies to 1 April 2021 for companies, and 5 April 2021 for unincorporated businesses
- this considerably accelerates the timescale for tax relief, in comparison with purchase of cars with CO₂ emissions of up to, and including 110g/km, which only get an 18% per annum writing down allowance, and cars with emissions over 110g/km (6% per annum)
- 100% first-year capital allowances on electric charge-point equipment. This applies until 31 March 2023 for corporation tax, and until 5 April 2023 for income tax.

Outlook: complex, changing

Business motoring is at a crossroads. The changes are about looking to the future: about car replacement policy, strategy for remunerating directors and other employees, about finding tax efficient ways of providing incentives for key personnel.

Tax efficiency

Traditionally, a car has been a big part of a remuneration package, but with the increase in appropriate percentages over the years, the tax cost has been increasing. For diesels, there is also the additional 4% diesel supplement - although even here, the outlook is changing; some new diesels, stepping up to new emissions standards, are exempt from the supplement. You might perhaps want to use the Vehicle Certification Agency online tool, giving fuel consumption, CO₂ emissions and tax bands for new and used cars bit.ly/2FB2zUF, as a starting point for decision-making.

Who pays?

Another very important point to think about is the balance of tax costs, particularly in a family company context, or for a personal service company. Who pays any tax bill – the company, a director or a third-party member of staff?

Benefit in kind: whose cost?

- employers providing a car available for private use provide a taxable benefit for employees
- the benefit is based on the vehicle's CO₂ emissions and the list price
- there is also a cost to employers, who pay a Class 1A National Insurance Contribution (NIC) charge at 13.8% of the amount assessed as a benefit on the employee.

Overall, the outlook is complex, changing - and needs careful choices.

Balancing what's best for your business

With the increasing range of incentives for green motoring, there is a need to decide whether electric is a realistic option for your business needs. If so, is this the time for you to buy into zero or low emission technology, or should you wait on further development in the market?

These are key areas you may want to consider:

Your vehicle replacement policy

- the current cost of electric vehicles, the range of models available, and the existing charging infrastructure
- your mileage requirements
- the future for conventional fuel types
- particular problems with diesel, including city centre bans

- the boundary line between cars and vans for tax purposes
- issues around fuel benefit.

Your remuneration strategy

Making an optimal decision here means taking stock of who your business provides cars for, and why. It could be because you require significant travel from employees and are looking to manage travel costs. It might be to reward employees. Or it might be to signal something about the success of the business - the tax tribunal, for example, recently heard a case where a business used an Audi A8 and Porsche Cayenne for just this purpose.

To help you take a fresh look at where motoring fits in your remuneration strategy, points to review include:

- the balance of costs in your business: employer taxes, such as NICs on benefits, as against the cost of paying directors and employees for business use of their own vehicle
- for family companies and personal service companies, there is a need to look at both sides of the equation - the cost to the company of purchase and running a car, as well as the tax costs involved for directors
- the existence of potential tax savings for employer and employee via salary sacrifice on electrics and hybrids
- whether you still want to provide a company car, or whether cash would now make a better alternative.

Navigate the complexity

The 'right' answer for you will depend on a range of factors unique to your business. But with benefit in kind rates now set until 2022/23, and government commitment to the Road to Zero, this is an important time to plan for the future.

Please do contact us to discuss details. We can help you navigate the complexity.