ACTIVE
PRACTICE
UPDATES
JULY 2021

McCleary & Company Ltd.
Chartered Accountants & Registered Auditors

THE PROS & CONS OF A COMPANY ELECTRIC CAR

Should employers shift towards greener vehicles?

Despite the potentially high personal tax charge, many employees still enjoy and prefer the convenience of being offered the use of a company car by their employer.

Those employers familiar with the benefit-in-kind tax rules will be aware the tax impact on the employee is much lower for those that choose lower emission cars.

On 6 April 2020, new benefit-in-kind percentage bands were introduced which took into account very low-emission cars and electric cars, favouring full electric cars more.

This is not the first time the Government has used tax policy to try to encourage more drivers to make the change to electric.

For five years from 6 April 2010, providing a zero-emission electric company car was tax-free to the employee but this failed to generate any big take-up, potentially due to the lack of car choice and supporting infrastructure.

Electric cars are, however, now becoming more mainstream. With more options on the market and with better infrastructure, they are now a much more viable option for an employer looking to provide an employee with a tax-efficient company car.

The past few years have also seen a significant increase in awareness of climate change among the general public and how individuals' choices can contribute to a greener future.

Employers have also been taking this on board.

Those that provide employees with company cars have been recognising that changing their fleet to low or zero-emissions vehicles can help contribute towards this common goal and be an attractive option to their staff from a personal perspective.

There are also many financial reasons why both the employer and employee might wish to make the switch.

ADVANTAGES

When assessing whether a company-provided electric car is tax-efficient, we need to consider this from both the employer and employee perspective.

When providing a company car to an employee, a tax charge is assessed on the individual based on the benefit-in-kind and this is subject to income tax at the employee's marginal rate. The employer will also be assessed on Class 1A National Insurance contributions (NICs) at 13.8% on the benefit-in-kind's value.

Therefore, both parties have an interest in the assessed benefit-in-kind being as low as possible. The lower the car emission, the lower the benefit-in-kind.

When we calculate the benefit-in-kind, we apply a percentage to the car value (UK list price) based on the car's CO_2 emissions in grams per kilometre (g/km). For specific details, see the table on page two.

Example

Tom's a higher-rate (40%) taxpayer who has a company car with a value of £40,000, which will be available to him for the whole of 2021/22.

The CO_2 emissions are 198g/km so the relevant benefit-in-kind percentage is the maximum of 37%. He will be assessed on a benefit-in-kind charge of £14,800 resulting in a tax liability of £5,920 for the year. The employer will have a Class 1A NICs liability of £2,042.40, based on 13.8% of £14,800.

If Tom's car was fully electric with zero emissions, the relevant percentage to apply to the value of £40,000 is now just 1% resulting in a benefit-in-kind charge of £400. At 40%, his tax charge for 2021/22 would be just £160 and the cost to his employer for Class 1A NICs is £55.20.

From a tax perspective, there is a clear financial incentive to both employer and employee to opt for an electric car. But this is just one way that taking this option could save both money.

Government push

As part of its push to encourage the switch to electric, the Government intends to provide more than £532 million for consumer incentives for ultra-low emission vehicles. Around £403m of this is earmarked for the extension of the plug-in car grant (PICG) to 2022/23.

From 12 March 2020, those making the switch to electric cars were eligible to apply for a grant of up to £3,000 towards the purchase of a new electric car.

In order to maximise the number of consumers who can benefit from this grant as the uptake increases, the Government reduced the available PICG and capped the value of cars on which it could be claimed. Currently, the PICG grant stands at £2,500 and cars costing more than £35,000 are excluded.

In addition, money has also been set aside for grants to encourage the switch to zero-emission vans, taxis and motorcycles in years to come.

As well as grants supporting car purchase, the Government has put in place a voucher-based workplace charging scheme. This provides eligible employers with support towards the upfront costs of buying and installing electric vehicle charge points at the workplace.

For those employees using a company car for business journeys, the employer can pay a fuel-only mileage rate to reimburse fuel costs. The advisory rate set by HMRC depends on the car fuel type and engine size.

For a petrol car with an engine size of over 2000cc, the advisory fuel rate is currently 19p per mile. For an employee travelling 10,000 business miles a year, this would cost the employer £1,900. In contrast, the rate for a full electric car is just 4p per mile, costing the employer just £400.

DISADVANTAGES

Car range is still an important issue, particularly for employees who are expected to travel large distances over the course of one day.

More planning may be required in terms of planning the route taken and the location of charging points, plus charging time may need to be built into the time schedule. Charging a car will take much longer than a regular fuel stop.

Potentially, this contributes to a less efficient working day as more time will be spent travelling on the road to clients and suppliers. Time, as they say, is money.

Although the network infrastructure of charging points has improved significantly since 2010, it is still not comprehensive and the number and speed of charging points can vary considerably depending on where you are travelling.

Cost might also still a barrier for some employers. Despite the grants available, electric cars are still more expensive than their fuel-based counterparts.

Over time these drawbacks are expected to lessen, but until then – despite the financial incentives to make the change – some employers and employees may be reluctant to make the switch to full electric just yet.

Talk to us about the tax elements of electric cars.

Taxable benefit-in-kind

CO_2 emissions (g/km)	Electric range (miles)	Cars registered before 6 April*	Cars registered on/after 6 April*
0	n/a	1%	1%
1 – 50	130 and over	2%	1%
1 – 50	70 – 129	5%	4%
1 – 50	40 – 69	8%	7%
1 – 50	30 – 39	12%	11%
1 – 50	Under 30	14%	13%
51 – 54	n/a	15%	14%
Over 54	n/a	+ 1% for every 5g/km up to 37%	+ 1% for every 5g/km up to 37%

*Diesel vehicles not meeting the RDE2 standard will be liable to a 4% surcharge, up to a maximum of 37%.