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Company Cars – You can still save tax!

Although many employees now choose to take the money rather than have a company car, there are still those who want the comfort of knowing that they will not be faced with unforeseen maintenance costs. But the price of certainty may be a disproportionately high income tax bill. What can be done to minimise the tax (and National Insurance (NICs)) costs of driving a company car?

Where employees have control over their choice of car, and they live in a 'two (or more) car household', then it could be a good idea to make the company car the second 'run-around' car. With a smaller cheap car, say with a list price of £10,000 or under, with low CO₂ emissions (140 g/km or less), the employee's monthly tax bill can be as low as £50. Considering the costs of running a car, this is extremely good value.

The employee could then purchase the 'main' car personally and claim business mileage under the Inland Revenue Authorised Mileage Rates, claiming up to 40p per business mile for the first 10,000 miles (25p thereafter). Where the employee has high business mileage, and the car is in the medium price range, this arrangement can be highly tax efficient.

Employers also save, as fewer and smaller company cars will reduce their Class 1A National Insurance Contributions (NICs).

Low taxable car benefits are no longer confined to small cars. There are now a number of larger low emission cars. For example, the taxable benefit on the Toyota Prius (104 g/km) is currently 15% of its list price, reducing to 10% from 6 April 2008.

Owner-managers may have even further scope for tax saving. For example, it may be the case that having both of the family cars owned by the company is more tax efficient than owning the 'main' car personally. It may also make sense for a car to be owned initially by the company, and then given to the owner-manager once the price has significantly depreciated. In this case the trade-off is between a one-off tax and NICs hit (based on the market value of the car at the date of the transfer) and on-going taxable benefits based on CO₂ emissions.

Turning to free fuel, the taxable benefit is often so high that the cost of personally buying the fuel for private motoring is less than the tax payable on the benefit. In such a situation it would be better for an employee to avoid free fuel and instead buy it himself!

In certain circumstances, avoiding the tax on the fuels benefit may not be sufficient to cover the cost of the private fuel forgone. The employer can pay additional salary to compensate the employee. The amount of additional salary can be calculated at a level to pass all or some of the tax savings to the employee. Any employee, whose free fuel costs amount to less than the taxable benefit, should be considering alternative arrangements.

Finally, there is no longer a penalty for stopping free fuel part-way through the tax year. If free fuel stops being provided part way through the tax year, only a proportionate part of the fuel benefit will be taxed. But care still needs to be taken, because if even £1 of free fuel is unintentionally provided, the whole charge may still apply.

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