LOW EMISSION VEHICLES

BENEFITS FOR CARE HOME OPERATORS **July 2021**

CARE HOMES AND OTHER COMPANIES IN THE CARE SECTOR, OFTEN MAKE USE OF THE CAR ALLOWANCES AVAILABLE FOR TAX RELIEF; HOWEVER, THERE CAN ALSO BE BENEFITS TO PROVIDING COMPANY CARS AS PART OF A REMUNERATION PACKAGE, SUCH AS HELPING TO ATTRACT AND RETAIN HIGH CALIBRE PERSONNEL IN A COMPETITIVE MARKET. THIS FACTSHEET LOOKS AT THE VARIOUS TAX INCENTIVES CURRENTLY AVAILABLE THAT ENCOURAGE BUSINESSES TO PROVIDE LOW CO_2 EMISSION (HYBRID) OR ZERO EMISSION (ELECTRIC) VEHICLES.

TAX IMPLICATIONS FOR THE EMPLOYER

CAPITAL ALLOWANCES

EMPLOYER BUYS THE CAR OR FINANCED BY HIRE PURCHASE

Cars do not qualify for the annual investment allowance; however, the cost of low emission vehicles will instead qualify for 100% first year allowances (FYAs), provided the following conditions are satisfied:

1. the expenditure is incurred by 31 March 2025 (for a company) or 5 April 2025 (for a sole trader/partnership);
2. the car is 'unused and not second-hand' i.e. new. (Note that HMRC will accept a car is new even if it has been driven a limited number of miles for testing, delivery or used as a demonstration car); and
3. the car is either:
   a) an electric car; or
   b) has zero CO_2 emissions (50g/km or less for cars purchased prior to April 2021).

The full cost of a qualifying vehicle can be deducted from the business profits, providing tax relief for the employer at the relevant rate i.e. currently 19% for a company or 20%, 40% or 45% for a sole trader/partnership.

For example, if the car costs £50,000, a company would receive a corporation tax deduction of £9,500 (£50,000 x 19%), resulting in the net cost to the company being £40,500.

Tax relief is still more advantageous for second hand hybrid or electric cars than ordinary cars, as these would qualify for main rate writing down allowances (WDAs) at 18%, where the car is electric or CO2 emissions are less than 50g/km (for cars purchased from April 2021 and less than 110g/km pre April 2021) for hybrids. This is in contrast to a typical diesel or petrol car that would only get 6% WDAs.

Furthermore, expenditure incurred on electric charging point equipment installed at the workplace will also qualify for 100% FYAs.

EMPLOYER LEASES THE CAR

The full lease rental payments will be deductible from the business profits, providing relief at the relevant rate. This treatment is applicable to all cars with CO_2 emissions of less than 50g/km (110g/km for cars purchased prior to April 2021).

NATIONAL INSURANCE CONTRIBUTIONS (NICS)

The employer will have to pay Class 1A NICs at 13.8% on the value of the car benefit for the employee. The NIC cost is also deductible for tax purposes.

TAX IMPLICATIONS FOR THE EMPLOYEE

Benefits provided to employees are taxed as employment income and subject to income tax at the appropriate rate.

CAR BENEFIT

Providing an employee with a company car that is available for their private use will give rise to a taxable benefit in kind (BIK) for the employee.

The benefit value is based on the list price of the car multiplied by the appropriate BIK percentage, which in turn is based on the car's CO_2 emissions and electric range from 2020/21, see below.

The percentages for 2020-21 onwards are shown in the table over the page.

If you would like more detailed information or advice, please contact Rachael Anstee on 01242 237661 or rachael.anstee@@hazlewoods.co.uk

www.hazlewoods.co.uk

HAZLEWOODS
DRIVING LIFELONG PROSPERITY

CO_2 (g/km)	Electric range (miles)	Appropriate percentage (%) 2020-21	2021-22	2022-23
Cars registered pre 6 April 2020				
0		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
51-54		15	15	15
55-59		16	16	16
60-64		17	17	17
65-69		18	18	18
70-74		19	19	19

The second column for the 'electric range' applies from 1 April 2020 onwards and affects hybrid cars that have CO_2 emissions of between 1-50g/km. The BIK percentage used depends on how many miles the car could travel if it only ran on the electric part of the engine i.e. the number of zero emission miles it can travel.

The percentage for diesel hybrids that do not meet the Real Driving Emissions Step 2 is increased by 4%.

For new cars registered after 6 April 2020, even lower rates will apply for a two-year transitional period. This is due to a change in the method used to determine CO_2 emissions from April 2020, to compensate for what, in most cases, will result in higher CO_2 emissions under the new measurement.

CO_2 (g/km)	Electric range (miles)	Appropriate percentage (%) 2020-21	2021-22	2022-23
Cars registered post 6 April 2020				
0		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
51-54		13	14	15
55-59		14	15	16
60-64		15	16	17
65-69		16	17	18
70-74		17	18	19

Examples

A care home operator purchased a petrol hybrid car in July 2019, with a list price of £50,000, CO_2 emissions of 45g/km and an electric range in excess of 130 miles. The taxable benefit for the employee for the 2020/21 tax year would be £1,000 (£50,000 x 2%). If they were a higher rate taxpayer then they would pay 40% tax on this, being just £400 per annum.

Comparing this to a car with relatively low emissions of 73g/km, the benefit would increase to £9,500 (£50,000 x 19%), with tax of £3,800 per annum for a higher rate taxpayer.

Further, if a similar car to that in the first example above had been purchased and provided in April 2020, the liability would be nil for 2020/21, as the lower rates in the second table would apply.

FUEL BENEFIT AND CHARGING POINTS

HYBRID CARS

If operators provide fuel for private use then this gives rise to a fuel benefit for their employee. The fuel benefit is based on a fixed amount, currently £24,500 for 2020/21 and £24,600 for 2021/22, multiplied by the appropriate percentage (as above).

Using the figures from the first example above, in 2020/21, the fuel benefit would be £490 (£24,500 x 2%), giving rise to a tax charge of £196. This benefit would increase to £4,655, giving rise to a tax charge of only £1,862 per annum in the second example and nil for the final example.

Where private mileage is very low, in some circumstances the tax charge would be higher than the cost of the fuel; therefore, care needs to be taken.

ELECTRIC CARS

Pure electric cars do not give rise to a fuel benefit because electricity is not a fuel. Further, the provision of an electric battery charging point at work does not give rise to a benefit in kind for employees regardless of whether they have a company car or private car (provided it is available to all employees generally).

The installation of a charging point at an employee's home is tax free for a company car user but is a taxable benefit (based on the cost to the employer) if it is for an employee using their own car.

An operator/employer can also pay an employee with an electric company car up to 4p per mile for the cost of the electricity used for business mileage, with no tax implications.

ELECTRIC VANS

Where vans may be used to transport groups of people or perhaps goods across multiple homes, the private use of an electric company van will give rise to a taxable benefit. This is calculated as a percentage of the van benefit for non-electric vans.

In 2020/21, a normal van benefit is £3,490 and the electric van benefit is 80% of this, being £2,792.

The electric van benefit will be reduced to nil from 2021/22 for vans with zero CO2 emissions.

Optional remuneration arrangements (OpRA) i.e. salary sacrifice

Currently, low emission vehicles (with CO_2 emissions of less than 75g/km) are not affected by the new OpRA rules and, as such, salary sacrifice is still potentially a tax efficient option for remuneration in respect of these cars.

01242 237661
Windsor House, Bayshill Road, Cheltenham, GL50 3AT
www.hazlewoods.co.uk / @Hazlewoods

HAZLEWOODS
DRIVING LIFELONG PROSPERITY