CORPORATE AND BUSINESS TAX

Business motoring - tax aspects

For many people the tax allowances available for business motoring is an important matter to consider. This factsheet focuses on the tax deductions on different types of vehicle expenditure in a variety of business scenarios.

Methods of acquisition

Motoring costs, like other costs incurred which are wholly and exclusively for the purposes of the trade, are tax deductible but the timing of any relief varies considerably according to the type of expenditure. In particular, there is a fundamental distinction between capital costs and ongoing running costs.

Purchase of vehicles

Where vehicles are purchased outright, the accounting treatment is to capitalise the asset and to write off the cost over the useful business life as a deduction against profits. This is known as depreciation.

The same treatment applies to vehicles financed through hire purchase with the equivalent of the cash price being treated as a capital purchase at the start, with the addition of a deduction from profit for the finance charge as it arises. However, the tax relief position depends primarily on the type of vehicle, and the date of expenditure.

A tax distinction is made for all businesses between a normal car and other forms of commercial vehicles including vans, lorries and some specialist types of car such as a driving school car or taxi.

Tax relief on purchases

Vehicles which are not classed as cars are eligible for the Annual Investment Allowance (AIA) for expenditure incurred. The AIA provides a 100% deduction for the cost of plant and machinery purchased by a business up to an annual limit. The amount of AIA available varies depending on the period of the accounts. AIA has been available on the first £1,000,000 since 1 January 2019 and will stay at that rate until 31 December 2021, reverting to £200,000 from 1 January 2022. Transitional rules could apply for chargeable periods spanning these dates.

Where purchases exceed the AIA, a writing down allowance (WDA) is due on any excess in the same period. The WDA available is currently at a rate of 18% or 6%, (8% before April 2019) depending on the asset. Cars are not eligible for the AIA, so will only benefit from WDA.

Capital allowance boost for low-carbon transport

HMRC has confirmed that the 100% First Year Allowance (FYA) rules for business expenditure on some low-emission cars, zero-emission goods vehicles and equipment for gas refuelling stations have been extended from April 2021 until April 2025. And 100% FYA has also been extended for qualifying expenditure on the acquisition of new and unused electric charge point equipment.

Writing Down Allowances (WDA)

The WDA rates are 18% on the main rate pool and 6% (8% before April 2019) for many higher-emission cars that are part of the special rate pool. Complex calculations may apply to accounting periods which straddle this date.

Complex cars!

The green car

Cars generally only attract the WDA but there is one exception to this and that is where a business purchases a new car with low emissions - a so called 'green' car. Such purchases attract a 100% allowance to encourage businesses to purchase cars which are more environmentally friendly. For cars bought from April 2021, you can claim a 100% First Year Allowance write off where the CO2 emissions of the car (new and unused) are 0g/km or it is electric. If bought between April 2018 and April 2021, you can claim 100% allowance for new/unused cars that are either electric or have CO2 emissions that do not exceed 50g/km. The cost of the car is irrelevant and the allowance is available to all types of business.

When did you buy?

The allowances due are determined by whether the car was purchased

- From April 2021.
- From April 2018.
- Or between April 2015 and April 2018.

The main and special rates apply from 1 April for limited companies and 6 April for individuals in business and partnerships. The First Year Allowances rate applies from 1 April for all businesses.

For purchases from April 2021:

The annual allowance is dependent on the CO2 emissions of the car.

- New and unused cars with CO2 emissions of 0g/km (or if electric, or a new zero-emission goods vehicle) qualify for enhanced capital allowances (a type of First Year Allowance) and you can deduct the full cost from your profits before tax.
- New and unused cars with emissions between 1g/km and 50g/km will qualify for main rate WDA.
- Second hand cars with emissions between 1g/km and 50g/km (or if electric) qualify for main rate WDA.
- New or second hand cars with CO2 emissions above 50g/km are in the special rate pool.

For purchases between April 2018 and April 2021:

The annual allowance is dependent on the CO2 emissions of the car.

- The 100% First Year Allowance (FYA) available on new and unused low-emission cars – or electric cars - purchased (not leased) by a business is generally available where a car's emissions do not exceed 50g/km.
- New and unused cars with emissions between 50 - 110g/km inclusive will qualify for main rate WDA.
- Cars with emissions in excess of 110g/km are placed in the special rate pool and will qualify for an annual WDA of 6% (8% before April 2019).
- If a used car is purchased with CO2 emissions of 110g/km or less, this will be placed in the main rate pool and will receive an annual allowance of 18%.

Non-business

Any cars used by the self employed or partners where there is part non–business use will still be separately allocated to a single asset pool. The annual allowance will initially be either the current main rate of 18% or special rate of 6% (8% before April 2019) depending on the CO2 emissions - and then the available allowance will be restricted for the private use element.

Example

A company purchases two cars for £20,000 in its 12 month accounting period to 31 March 2020. The dates of purchase and CO2 emissions are as follows:

White car	**Blue car**
1 February 2020 105	1 February 2020 145

Allowances in the year to 31 March 2020 relating to these purchases will be:

White car (main pool as emissions less than 110g/km)	**Blue car (special rate pool as emissions more than 110g/km)**
£20,000 @ 18% = £3,600	£20,000 @ 6% = £1,200

In the following year to 31 March 2021 the allowances will be:

White car	**Blue car**
£16,400 @ 18% = £2,952	£18,800 @ 6% = £1,100

Disposals

Where there is a disposal of plant and machinery from the main or special rate pools any balance of expenditure, after taking into account sale proceeds, continues to attract the annual allowance.

Where there is a disposal of a car held in a single asset pool, the disposal proceeds are deducted from the balance of the pool and a balancing allowance or a balancing charge is calculated to clear the balance on the pool.

This applies to any cars used by the self employed with part non business use whenever purchased.

What if vehicles are leased?

The first fact to establish with a leased vehicle is whether the lease is really a rental agreement or whether it is a type of purchase agreement, usually referred to as a finance lease. This is because there is a distinction between the accounting and tax treatment of different types of leases.

Tax treatment of rental type operating leases (contract hire)

The lease payments on operating leases are treated like rent and are deductible against profits. However where the lease relates to a car there may be a portion disallowed for tax.

From April 2021 a disallowance of 15% applies for cars with CO2 emissions which exceed 50g/km.

Example

Contract signed 1 June 2021 by a company:

The car has CO2 emissions of 86g/km and a £7,000 annual lease charge. The disallowed portion would be £1050 (15%) so £5,950 would be tax deductible.

Tax treatment of finance leased assets

These will generally be included in your accounts as fixed assets and depreciated over the useful business life but as these vehicles do not qualify as a purchase at the outset, the expenditure does not qualify for capital allowances unless classified as a long funded lease. Tax relief is generally obtained instead by allowing the accounting depreciation and any interest/finance charges in the profit and loss account - a little unusual but a simple solution!

Private use of business vehicles

The private use of a business vehicle has tax implications for either the business or the individual depending on the type of business and vehicle.

Sole traders and partners

Where you are in business on your own account and use a vehicle owned by the business - irrespective of whether it is a car or van - the business will only be able to claim the business portion of any allowances. This applies to capital allowances, rental and lease costs, and other running costs such as servicing, fuel etc.

Providing vehicles to employees

Where vehicles are provided to employees irrespective of the form of business structure - sole trader/partnership/company - a taxable benefit generally arises for private use. A tax charge will also apply where private fuel is provided for use in an employer provided vehicle. For the employer such taxable benefits attract 13.8% Class 1A National Insurance.

Vans

Where employers provide employees with company vans available for private use, or provide fuel for private mileage in company vans, the following rules apply.

From 6 April 2021, employees who are provided with a company van that produces zero emissions when driven (and is made available for private use), benefit from a zero rate van benefit charge. For details on what this means please contact us. Where the condition is not met there is a flat rate charge per annum. These benefit charges are £3,500 for the unrestricted private use plus an additional £669 for private fuel in 2021/22 (£3,490 and £666 for 2020/21).

How we can help

If you would like further details on the tax aspects of business motoring please contact us at Wise & Co.

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