

2017/18 GUIDE TO...

BUSINESS MOTORING



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YOUR GUIDE TO...

Business Motoring

For many businesses, motoring costs represent a significant expense in the profit and loss account. It is therefore important to organise your business motoring in the most tax-efficient way possible. This will, of course, depend on your individual circumstances and such factors as the annual mileage, the fuel type of the vehicle, the age of the car acquired and the retention period.

Acquiring a vehicle

For businesses looking to acquire a vehicle, the three principal options are:

- Outright purchase, possibly funded by a loan/overdraft
- Hire purchase
- Contract hire/finance leasing.

The decision as to which is appropriate will need to take into account a range of factors, including the availability of cash, car ownership and the VAT situation – please speak to us for advice.

The tax treatment

Where vehicles are purchased outright or financed through hire purchase, the accounting treatment is to capitalise the asset and to write off the cost over the useful business life as a deduction against profits.

A tax distinction is made for all businesses between a normal car and other forms of commercial vehicles including vans, lorries and some specialist forms of car, such as a driving school car or taxi. Generally cars only qualify for a writing down allowance of 18% or 8%, depending upon the CO₂ emissions of the car. Other commercial vehicles may qualify for an immediate tax write off.

Finance leased assets will generally be included in the business 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 normally qualify for capital allowances.

The tax relief for both contract hire and finance leases is based on the amounts that are charged to the profit and loss account. For finance leases this will be depreciation, interest and finance charges. For contract hire the lease payments on operating leases are treated like rent and are deductible against profits.

Currently a disallowance of 15% will apply for cars with CO₂ emissions which exceed 130 g/km.

Who Owns the Car?

Sole trader and partners

The tax cost of private motoring is generally calculated on a case-by-case basis, taking into account the actual private and business mileage to identify the proportion of the cost of running the car which is not a deductible expense. The proportion of costs attributable to business motoring is tax-deductible, so qualifies for relief against both tax and Class 4 national insurance contributions (NICs).

Where you are in business on your own and use a vehicle, 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.

Rather than claiming the actual deductions for purchasing, maintaining and running a motor vehicle or motorcycle, businesses can calculate allowable expenditure using a fixed rate based on mileage.

Directors and company cars

Where the company owns the car all the running costs are deductible against profits but you, as a director, will pay tax on a benefit in kind. If any fuel for private use is provided by the company, you will be liable for another benefit in kind.

Employees

The same tax issues apply to employees irrespective of the form of business structure – sole trader, partnership or company. For the employer, taxable benefits on the director or employee attract 13.8% Class 1A NICs.

Who pays for the fuel?

As fuel will be used for both private and business journeys, a system needs to be in place so as to avoid the taxable benefit on free fuel. As the taxable benefit is high, in most cases it is better for the employer to pay only for the business mileage.

One method that can be used is for the employee to pay for all the fuel and claim a mileage allowance from their employer for business travel.

HMRC publish rates which can be used to reimburse employees tax-free for business miles that they travel in an employer-provided car.

The Cost of the Benefits

Car benefit

The employer Class 1A NIC liability, and the employee tax liability, on a company car will be calculated by reference to a benefit figure.

This figure is determined by applying to the car's UK list price on the day before it was first registered (and including the UK list price of most accessories, whether fitted on or after delivery) the 'appropriate percentage'. The rate is dependent on the car's CO₂ emissions and the fuel type, and will be between 9% and 37%.

Fuel benefit

Where fuel for private use is provided by an employer – even as little as a litre – the employer is liable for Class 1A NICs, and the employee for tax on the full benefit. This is calculated by applying the appropriate percentage to the car fuel benefit charge multiplier, which is set at £22,600 for 2017/18.

Where VAT is to be reclaimed on fuel for private use, the employer has to account for output tax, which may be calculated under the optional VAT flat rate valuation rules. These are also based on the car's CO₂ emissions.

Company vans

Have you considered a company van? The taxable benefit for the unrestricted use of company vans is £3,230 plus a further £610 of taxable benefit if fuel is provided by the employer for private travel.

A 'van' for this purpose could include some extended cab pick-ups, complete with off-road styling, air conditioning and leather upholstery!

There is no benefit charge where the private use of the van satisfies 'restricted private use conditions' throughout the tax year. There is also a reduced charge for electric vans.

We can help you weigh up the options and decide on the best course of action for your business.

Tax Pointers

Records and returns

If you are a sole trader or a partner, you need to record motoring expenses and mileages for the purpose of claiming tax reliefs for these costs. However, if you are the owner of a limited company or of a business providing one or more company cars, you must also comply with the reporting requirements of HM Revenue & Customs.

You must give notice when a company car is first provided to an employee or director, report certain changes and annually report the taxable benefit(s). A form P46 (Car) must be filed quarterly, reporting all relevant company car changes (except where one car is replaced with another). A form P11D, reporting all benefits and expenses payments not covered by statutory exemption, must be filed no later than the 6 July following the end of the tax year.

The same deadline applies for providing a copy to the employee or director, while the employers' national insurance payable on the benefit is due by 19 July.

Employees and directors using their own cars

In many cases, business travel will be undertaken by employees and directors using their own vehicles. HMRC has approved mileage allowance payments (see below) which can be paid by employers to reimburse the cost of such usage, and payments at these rates will be accepted for all tax purposes:

| Vehicle | First 10,000 miles | Thereafter |
|------------|--------------------|------------|
| Car or van | 45p | 25p |
| Motorcycle | 24p | 24p |
| Bicycle | 20p | 20p |

These rates effective at April 2017.

Pros and cons of company cars

Pros: essential tools for your business; control over company image and costs; peace of mind for employees.

Cons: paperwork; fleet management; capital locked into the car fleet; cost of finance; increasing tax and NIC costs.

For more information and advice on tax-efficient business motoring strategies, please contact us.

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