

GUIDE TO COMPANY CARS

Company cars are a great perk but the tax rates on them can be confusing, especially as there are implications for both your company and you personally.

COMPANY IMPLICATIONS

CORPORATION TAX

Were you to lease a vehicle and pay for it through the company this would be shown as a business expense lowering your profits and saving Corporation Tax (19%). So on lease payments of say £500/month (£6,000 per annum) the company would save £1,140 per annum (£6,000 X 19%).

VAT

As a company you would be able to recover only 50% of the VAT charged. However if operating the flat rate scheme for VAT, this would not impact on you as you cannot recover the input VAT.

CLASS 1 NATIONAL INSURANCE

The company would also suffer Class 1A National Insurance on any benefit to an employee (see below). This is charged at 13.8% of the benefit value.

PERSONAL IMPLICATIONS

BENEFITS-IN-KIND

Unfortunately, the benefits you gain through paying for the lease through the company, you generally lose through the additional personal tax you would suffer. If the car is made available for personal use (even if it is not used) you would be treated as receiving a benefit-in-kind. Please note, you do not have to use the car for personal use for it to count as a benefit, HMRC deem that if it is available then you have received the benefit.

For example, were you to use the car purely for business but park the car outside your house at night, HMRC would deem that the car is available for personal use even if you did not use it.

MOTOR VEHICLE BENEFIT

The Benefit in Kind on the vehicle is calculated based on the following:

$$\text{List price of the vehicle X HMRC percentage (based on the CO2 emissions)} \\ = \text{Taxable Benefit (Motor Vehicle)}$$

Based (for example) on a diesel BMW 6 series coupe, you would be treated as receiving the following taxable benefit:

$$£60,000 \text{ (list price)} \times 29\% \text{ (26\% BIK + additional 4\% for diesel car)} = £17,400 \text{ taxable benefit}$$

The £17,400 would then be treated as additional income / benefit on your personal tax return and you would pay additional personal tax based on your tax banding (so could be 20%/40% or even 45% depending upon your level of income).

Whilst MyAccountant.co.uk do not offer this service, we would be happy to recommend a local firm who would be happy to assist.

FUEL BENEFIT

You would also suffer a benefit-in-kind on the fuel benefit, this is calculated as follows:

$$£20,200 \text{ flat rate X HMRC percentage (based on the CO2 emissions)} \\ = \text{Taxable Benefit (Fuel Benefit)}$$

The fuel benefit on the 6 series would be:

$$£20,200 \times 29\% = £5,858 \text{ taxable benefit}$$

Like with the car benefit this would then suffer additional personal tax via your tax return.

SUMMARY

Per the above example, the company would save corporation tax of £1,140 per annum, but would suffer additional personal tax of at least £4,651.60 (£17,400 + £5,858 X 20%). Indeed, were you to be a higher rate tax payer in the tax year this would increase further to £9,303.20 (£17,400 + £5,858 X 40%).

There is no real benefit to leasing a car through your Limited Company due to the additional personal tax you would suffer. The benefit-in-kind charge is very much dependant on the car's CO2 emissions and the list price of the vehicle. The only real way to lower the additional personal tax charge would be to either look at a cheaper vehicle or one with lower CO2 emissions.

Please contact your Account Manager for more guidance if you are considering investing in a company car.