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PROS AND CONS OF ELECTRIC COMPANY CARS

Despite the potentially high personal tax charge, many employees still enjoy and prefer the convenience of being offered the use of a company car by their employer and this can also be the case for owner managed businesses where the directors choose to run their cars through their companies. Those familiar with the benefit-in-kind tax rules will be aware that the tax impact on the employee/director is much lower for those that choose lower-emission cars.

On 6 April 2020, new benefit-in-kind percentage bands were introduced which took into account very low-emission cars and electric cars, favouring fully electric cars more. There is no doubt that electric cars are becoming more mainstream. With more options on the market and with better infrastructure, they are now a much more viable option for businesses looking to provide an employee/director with a tax-efficient company car and there are also many financial reasons why both the employer and employee might wish to make the switch.

Advantages

When assessing whether a company-provided electric car is tax-efficient, you need to consider this from both the employer and employee perspective. When providing a company car to an employee/director, a tax charge is assessed on the individual based on the benefit-in-kind and this is subject to income tax at the employee/director's marginal rate. The employer will also be assessed on Class 1A National Insurance contributions (NICs) at 13.8% on the benefit-in-kind's value. Therefore, both parties have an interest in the assessed benefit-in-kind being as low as possible. The lower the car's emissions, the lower the benefit-in-kind.

To calculate the benefit-in-kind, a percentage is applied to the car value (UK list price) based on the car's CO_2 emissions in grams per kilometre (g/km).

This is probably best illustrated by way of an example. Let us say that Tom is a higher-rate (40%) taxpayer who has a company car with a list price of £40,000, which will be available to him for the whole of the 2021/22 tax year. The CO_2 emissions are 198g/km so the relevant benefit-in-kind percentage is the maximum of 37%. He will be assessed on a benefit-in-kind charge of £14,800 resulting in a tax liability for him of £5,920 (40% of £14,800) for the year. The employer will have a Class 1A NICs liability of £2,042.40 (13.8% of £14,800).

If Tom's car was fully electric with zero emissions, the relevant percentage to apply to the list price of £40,000 is now just 1%, resulting in a benefit-in-kind charge of £400. At 40%, his tax charge for 2021/22 would be just £160 and the cost to his employer for Class 1A NICs is £55.20.

From a tax perspective, there is a clear financial incentive to both employer and employee to opt for an electric car. But this is just one way that taking this option could save both money. As part of its push to encourage the switch to electric, the Government intends to provide more than £532 million for consumer incentives for ultra-low emission vehicles. Around £403m of this is earmarked for the extension of the plug-in car grant (PICG) to 2022/23.

From 12 March 2020, those making the switch to electric cars were eligible to apply for a grant of up to £3,000 towards the purchase of a new electric car. In order to maximise the number of consumers who can benefit from this grant as the uptake increases, the Government reduced the available PICG and capped the value of cars on which it could be claimed. Currently, the PICG grant stands at £2,500 and cars costing more than £35,000 are excluded. As well as grants supporting car purchase, the Government has put in place a voucher-based workplace charging scheme. This provides eligible employers with support towards the upfront costs of buying and installing electric vehicle charge points at the workplace. The provision of such charge point facilities can also often be a tax-free benefit-in-kind to employees making use of them (and even potentially for directors installing similar charge points at their homes).

For those employees using a company car for business journeys, the employer can pay a fuel-only mileage rate to reimburse fuel costs. The advisory rate set by HMRC depends on the car fuel type and engine size. For a petrol car with an engine size of over 2000cc, the advisory fuel rate is currently 19p per mile. In contrast, the rate for a fully electric car is just 4p per mile.

Furthermore, from the company's Corporation Tax point of view, if the electric company car has CO_2 emissions of 0g/km, the company should be able to deduct 100% of the cost of the vehicle against its taxable profits for the year of purchase. This 'First Year Capital Allowance' only applies if the electric car is brand new and unused.

Disadvantages

Car range is still an important issue, particularly for employees/directors who are expected to travel large distances over the course of one day. More planning may be required in terms of planning the route taken and the location of charging points, plus charging time may need to be built into the time schedule. Although the network infrastructure of charging points has improved significantly over recent years, it is still not comprehensive and the number and speed of charging points can vary considerably depending on where you are travelling.

Cost might also remain a barrier for some businesses. Despite the grants available, electric cars are still generally more expensive than their fuel-based counterparts.

Over time these drawbacks are expected to lessen, but until then – despite the financial incentives to make the change – some employers and employees may be reluctant to make the switch to fully electric just yet.

The above is for general guidance only and no action should be taken without obtaining specific advice.

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