

COMPANY CARS

The rules for taxing company cars were replaced from 6 April 2002. As a result, there may be significant changes in the amount of tax payable by an employee.

The extent of the change will depend upon:

- the type of car provided to an employee and
- the number of business miles travelled.

We set out below the main areas of importance. Please do not hesitate to contact us if you require further information and whether changes should be made the type of car provided to an employee.

THE OLD RULES

The tax charge for an employee provided with a company car was based on a percentage of the list price of the car. The percentage was dependent upon the level of business mileage and the age of the car. The lowest percentage charge arose for someone doing high business mileage in an older car. The highest percentage charge applied to someone driving very few business miles in a newer car, the so-called 'perk' car.

The complete list of charges for the previous tax year (2001/02) is set out below.

Business miles	Vehicles under four years old	Vehicles at least four years old
0 - 2,499	35%	26.25%
2,500 - 17,999	25%	18.75%
18,000 and over	15%	11.25%

THE NEW REGIME

The new regime continues to tax company cars by reference to the list price of the car but graduated according to the level of its carbon dioxide (CO₂) emissions. The new regime is intended:

- to encourage manufacturers to produce cars which are more environmentally friendly and

- to give company car drivers and their employers a tax incentive to choose more fuel-efficient vehicles.

The previous business mileage and age related discounts have been abolished. This is at least in part because the government believes that up to 300 million business miles may have been driven unnecessarily each year in order to reach the mileage discount thresholds.

Percentage charges

As under the old regime, the percentage charge for the majority of cars will be between 15% and 35%. The new emissions table is set out below.

CO ₂ emissions in grams per kilometre			% of car's price taxed
2002/03	2003/04	2004/05	
165	155	145	15
170	160	150	16
175	165	155	17
180	170	160	18
185	175	165	19
190	180	170	20
195	185	175	21
200	190	180	22
205	195	185	23
210	200	190	24
215	205	195	25
220	210	200	26
225	215	205	27
230	220	210	28
235	225	215	29
240	230	220	30
245	235	225	31
250	240	230	32
255	245	235	33
260	250	240	34
265	255	245	35

If the CO₂ figure doesn't end in a 5 or 0 round down to the nearest 5 grams per kilometre

Examples

Jane was provided with a new company car, a Mercedes CLK 430, on 6 April 2001. The list price is £50,000. The CO₂ emissions are 281 grams per kilometre. Jane regularly drives 20,000 business miles each year.

Jane's benefit in kind in 2001/02 was £50,000 x 15% = £7,500

In 2002/03, the taxable benefit will be £50,000 x 35% = £17,500

Her taxable benefit has increased by 133%.

Phil, on the other hand, has a company car, a BMW 318i, which had a list price of £21,000 when it was provided new on 6 April 2001. Phil does fewer than 1,000 business miles each year. The CO₂ emissions are 188 grams per kilometre.

Phil's benefit in kind in 2001/02 was £21,000 x 35% = £7,350

In 2002/03, the taxable benefit will be: £21,000 x 19%* = £3,990

* rising to 21% in 2003/04 and 23% in 2004/05.

Note: The CO₂ emissions are rounded down to the nearest 5 grams per kilometre - in this case 185.

Diesels

Diesel cars emit less CO₂ than petrol cars and so would be taxed on a lower percentage of the list price than an equivalent petrol car. However, diesel cars emit greater quantities of air pollutants than petrol cars and therefore a supplement of 3% of the list price applies to diesel cars. For example, a diesel car that would give rise to a 22% charge on the basis of its CO₂ emissions will instead be charged at 25%. The maximum charge for diesel is capped at 35%.

The 3% supplement will be waived if the car achieves the clean level of Euro IV standard emissions.

Obtaining emissions data

The Vehicle Certification Agency produces a free guide to the fuel consumption and emissions figures of all new cars. It is available on the internet at www.vcacarfueldata.org.uk. These figures are

not however necessarily the definitive figures for a particular car:

- for all cars first registered from 1 March 2001 onwards, the definitive CO₂ emissions figure is recorded on the Vehicle Registration Document (V5)
- for cars first registered between 1 January 1998 and 28 February 2001, the definitive figure is found by going to www.smmmt.co.uk. This is a service provided by the Society of Motor Manufacturers and Traders (SMMT).

Factors that haven't changed

- the list price of a car still is the price when it was first registered including delivery, VAT and any accessories provided with the car or subsequently made available (unless they have a list price of less than £100)
- the list price continues to be restricted to an upper limit of £80,000
- employee capital contributions up to £5,000 reduce the list price
- the benefit continues to be proportionately reduced if the car is unavailable for part of the year.

THE EXCEPTIONS

As with all changes to tax rules there are exceptions to the general rules.

Cars first registered before 1 January 1998

There is no reliable source of CO₂ emissions data for cars registered before 1 January 1998. Such cars will be taxed from 6 April 2002 according to their engine size.

Engine size (cc)	% of list price charged to tax
0 - 1400	15%
1401 - 2000	22%
over 2000	32%

Imports

Some cars registered after 1 January 1998 may have no approved CO₂ emissions figure, perhaps if they were imported from outside the EC. They too will be taxed according to engine size.

Engine size (cc)	% of list price charged to tax
0 - 1400	15%
1401 - 2000	25%
over 2000	35%

PRIVATE FUEL

Where a company car user is supplied with or allowed to claim reimbursement for fuel for private journeys there is a tax charge based on the cylinder capacity of the car.

2002/03

	Petrol	Diesel
	£	£
Up to 1400cc	2,240	2,850
1401cc-2000cc	2,850	2,850
2001cc or more	4,200	4,200

Change from April 2003

From 6 April 2003 the fuel scale charge will be based on the same percentage used to calculate the car benefit. This will be applied to a set figure which for 2003/04 is £14,400.

EMPLOYEES USE OF OWN CAR

A new statutory system of tax and NIC free mileage rates for business journeys in employees' own vehicles has been introduced from 6 April 2002. The old system of authorised mileage rates geared to the car's engine size has been replaced by a single rate for all cars and vans.

The statutory rates for 2002/03 are:

	Rate per mile
Up to 10,000 miles	40p
Over 10,000 miles	25p

Employers can pay up to the statutory amount without generating a tax or NIC charge.

Payments made by employers under the new regime are referred to as 'mileage allowance payments'.

Where employers pay less than the statutory rate (or make no payment at all) employees can claim tax relief on the difference between any payment received and the statutory rate.

HOW WE CAN HELP

There will be winners and losers under the new regime. In general, the winners will be those with relatively modest cars driving few business miles, while the losers will be those driving at least 18,000 business miles a year in high specification models.

For individuals in this latter category, it may be time to revisit the issue of the tax-efficiency of continuing with the company car.

Please contact us for more detailed advice on the effects of the new regime.

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