Briefing

Are tax breaks a green light for more electric company cars?

shipleys LLP

With climate change and air pollution hitting the headlines, some businesses are considering making the switch to 'greener' company cars with low CO^2 emissions.

Despite some initial resistance to electric cars because of a lack of recharging infrastructure, the past year has experienced a steady rise in sales.

Recent figures from the [Society of Motor Manufacturers and Traders] (SMMT) show that pure-electric models accounted for 6.7% of total new car registrations. Adding in plug-in hybrids (PHEVs) takes that figure up to 10.5%.

This perhaps has been partly helped by the new company car rules that were introduced earlier in 2020. Here we discuss the various tax benefits of switching your company cars to electric.

Cars - Vehicle CO^2 emission	Benefit in kind rate			
	2019-20	2020-21	2021-22	2022-23
0 g/km	16%	0%	1%	2%
1-50g/km (electric range over 130 miles)	16%	2%	2%	2%
1-50g/km (electric range 70-129 miles)	16%	5%	5%	5%
1-50g/km (electric range 40-69 miles)	16%	8%	8%	8%
1-50g/km (electric range 30-39 miles)	16%	12%	12%	12%
1-50g/km (electric range less than 30 miles)	16%	14%	14%	14%

Taxable benefits - the implications for different electric company vehicles

A new set of benefit in kind rates were introduced on 6 April 2020 that favour electric vehicles.

Cars

The rate for pre-2020 registered zero CO^2 emission cars for 2020/21 is only 0%, if the car can travel 130 miles per full charge on pure electric power. The rates in 2021/22 and 2022/23 are higher, but still only 1% and 2% respectively.

For P11D/Class 1A National Insurance purposes the taxable benefit is calculated on the percentage of the company car's list price according to its CO^2 emission. See the table in the next column

Vans

With electric vans the taxable benefit for having private use of a zero-emission van will be 80% of the usual van benefit for 2020/21 and will then reduce to 0% from the 2021/2 tax year. For both years, and irrespective of the fuel type, if the van is only used for business travel and ordinary commuting no taxable benefit applies.

Bikes

For taxable benefits when it comes to electric bikes, it is important to recognise the distinctions between electric bikes and motorbikes. Electric bikes are classified as not having a motor powered top speed of over 25mph. Their electric motor power must be less than 250 watts. If the power range is above these figures, the bike is then classed as a motorbike for tax purposes.

Electric bikes like pedal bikes qualify for the highly popular Cycle to Work scheme which doesn't come with a P11D benefit in kind obligation. For more details on the scheme, see the [Government's guide to employers.]

Electric motorbikes are currently taxed in the same way as petrol motorbikes.

Salary sacrifice treatment

If an employee has been provided with a car under a salary sacrifice scheme, the benefit is valued at the amount of the salary given up, or (if higher), the taxable benefit. This optional remuneration does not apply if the company car's CO^2 emissions are less than 75g/km.

Other tax advantages for going electric

There are other favourable measures introduced by the Government to encourage companies to switch their vehicles to electric. On the next page we given a quick summary.

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www.shipleys.com

@Shipleys_LLP

Shipleys LLP

For more information speak with your Shipleys contact or our specialists:

Mike Luckett
LuckettM@Shipleys.com
44 (0)20 7312 0000

Stephen Hanlon
HanlonS@Shipleys.com
44 (0)20 7312 0000

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Other tax advantages for going electric

Capital allowances

A low or zero emission company car can qualify for a 100% first year allowance (FYA) up to 1 April 2021, as long as its CO^2 emissions don't exceed 50g/km and the car is purchased new and unused. This means your company can still claim a full 100% deduction for the cost of an electric car against its profit, as well as for installing a charging point at the workplace.

A similar 100% FYA rate applies for zero emission vans – again if the vehicle is purchased new and unused before 1 April 2021. Commercial vehicles already qualify for 100% relief under the Annual Investment Allowance.

When it comes to the annual writing down allowance (WDA), cars with CO^2 emissions of between 51g/km and 110g/km are added to the main pool for capital allowance purposes, and in turn attract a WDA of 18%. Cars with CO^2 emissions exceeding 110g/km need to be allocated to the special rate pool with a WDA rate of 6%.

Electric bikes also qualify for the company's Annual Investment Allowance.

Road Tax (Vehicle Excise Duty)

For pure electric cars vehicles, the road tax, or Vehicle Excise Duty (VED), has been reduced to £0 until 2025. Plug-in hybrid electric vehicles also benefit from reduced VED rates.

Incentives for switching to electric

The Government's Plug-in Car Grant

In his March 2020 Budget, the Chancellor introduced a plug-in car grant to encourage purchases of electric vehicles.

The grant was adjusted in April 2021 and currently provides 35% of the purchase price (up to a cap of £2,500) towards the cost of an eligible plug-in vehicle that costs less than £35,000. Some key points to note are:

1. The grant applies at the time of purchase, so is often given as a discount in the vehicle's purchase price
2. The electric range which the vehicle must have in which to qualify is at least 70miles
3. For plug-in hybrids, the vehicle must also have a combined CO^2 emissions of 50g/km or less. This means however that all major full battery electric vehicles qualify however only a few plug-in hybrid models are eligible.

Read more information here.

Covering the cost of charging

If your business installs an electric vehicle charging point before 31 March 2023, it can claim a 100% of these cost as part of its first-year allowance within its Capital Allowances calculations.

Employees' own vehicles

There is also no taxable benefit on the electricity for employees when they charge their own electric vehicles at their workplace. For this tax exemption to qualify the charging facility should be at or near the workplace. If, an employer reimburses the cost of charging the employee's own vehicle elsewhere (for example at a supermarket), this will be taxable.

Company-provided electric vehicles

For company-provided vehicles, there is no taxable benefit for charging. When reimbursing the costs when the driver of the vehicle needs to recharge away from the workplace, an employer can pay the driver 4p per mile without any tax implications. Note this only applies to business journeys for company owned electric cars.

Employees' privately owned electric cars

If your employee uses his or her own electric car for business journeys, the normal tax free mileage rate of 45p per mile for the first 10,000 miles driven in a year can be paid to the individual. Additional business miles can be reimbursed at 25p per mile.

If your employee owns or leases the electric car they do currently qualify for the Government's Electric Vehicle Homecharge Scheme. This gives grant gives a 75% contribution to the cost and installation of one charge point up to a maximum of £500 (inclusive of VAT) per household and eligible vehicle. To find out more about eligibility see here.

And finally...

It's important to remember that the tax rules for higher and lower CO^2 emission cars may continue to change, depending on any change of government and future Budget statements from the Chancellor. The loss in tax revenues which electric cars present to the Treasury may warrant a rethink in future as it tries to replenish its coffers post the pandemic.

There's already been mutterings of road charges to recoup revenues. For now, the government's environmental targets mean electric vehicles still come with tax benefits.

If you need advice on the latest tax consequences of buying a particular vehicle, please speak with your Shipleys contact or one of our specialists.

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@Shipleys_LLP

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Mike Luckett
LuckettM@Shipleys.com
44 (0)20 7312 0000

Stephen Hanlon
HanlonS@Shipleys.com
44 (0)20 7312 0000