

Tax Tip – Tax Benefit on Fuel for Company Cars

The taxation of company cars and whether employees should opt for buying their own cars for business use is a question that comes up frequently. There are many factors that can influence what people do about this and with the tax rules constantly changing a regular appraisal is a necessity. If you decide to stick with a company car, you must remember that the car fuel benefit may need reviewing as well as checking whether it is tax-efficient. The tax rates for car fuel will increase on 6 April 2010, so if you claim company car fuel you need to make sure that the benefits outweigh the costs.

Directors and employees who have the benefit of company cars with all fuel provided by the company (aka fully-expensed cars) may find that they are now better off paying for their own private fuel rather than suffering tax on the car fuel benefit charge. Opting-out of the car fuel benefit does not affect the company car benefit itself and it can be changed part-way through a tax year. The only condition is that the employee must not be provided with any fuel for private use; not even a £1's worth.

Example

Take the example of Jack who is a higher rate taxpayer (at 40%), has a company car with a CO₂ emissions rating of 182 g/km in which he drives 5,000 private miles. If the company provide private fuel to Jack then his taxable benefit will be based on the new tax charge "multiplier" of £18,000 for the 2010/11 tax year. The calculation of the tax would be:

$\text{£18,000} \times 25\% \text{ (for a 182 g/km car)} \times 40\% \text{ (Jack's tax rate)} = \text{£1,800}$ (£150 per month)

If Jack opts-out of the car fuel benefit before 6 April 2010 then his cost of buying fuel, at say 14p per mile, would be:

$5,000 \text{ miles} \times 14\text{p} = \text{£700}$ (about £58 per month)

So Jack would **save £1,100 in the 2010/11 tax year**. In fact, if his income exceeds £150,000 in 2010/11 he would be liable to income tax at 50% and might **save £1,550 for the year**.

Clearly, there may be tax savings by giving up a company benefit but, of course, this decision should not be made without considering other issues such as employment rights and changes in circumstance (e.g. where the employee lives).

For further advice and information, contact Alan Boby on 01295 250401 or email aboby@ellacotts.co.uk

DISCLAIMER - PLEASE NOTE: The ideas shared with you in this email are intended to inform rather than advise. Taxpayer's circumstances do vary and if you feel that tax strategies we have outlined may be beneficial it is important that you contact us before implementation. If you do or do not take action as a result of reading this newsletter, before receiving our written endorsement, we will accept no responsibility for any financial loss incurred.

Ellacotts LLP
Beechfield House
38 West Bar
Banbury
Oxfordshire
OX16 9RX
Tel: 01295 250401 Fax: 01295 271375 web: www.ellacotts.co.uk

Ellacotts LLP is a Limited Liability Partnership registered in England and Wales under no. OC 319580 at the above address and is registered for VAT under reference no. 119 5074 71.

Partners of the firm are members of the Institute of Chartered Accountants of England and Wales (ICAEW). This body has its headquarters in the UK and its rules of professional conduct can be obtained from its web site.

Ellacotts LLP is authorised to act as statutory auditor by the ICAEW.