

## Company Cars - Beware the road ahead

Acquiring a company car can be expensive so it is important to look for the most cost effective and tax efficient way to do it. The following are some of the areas you should think about before deciding what's right for you.

Finding the most tax efficient option for a company car can be complicated and there are a number of variables that need to be taken into account. However, it is worth investing the time to understand what the best options are that add value for you, your employees and your business.

**Contact us to discuss your options.**

**Initial considerations:** This will involve reviewing the value of the car you want to acquire and the potential level of personal use.

If there is a significant level of personal use it may be more tax efficient to purchase outside the company and prepare mileage claims.

Purchasing the vehicle outright versus leasing the vehicle will also have an effect on tax and VAT.

**Car Use:** Will the car be used solely for business purposes or is there a likely personal use element as well? How it will be used will determine whether you can claim VAT, if Benefit in Kind applies and Income Tax and National Insurance contributions may also apply.

**VAT on fuel:** How the car is used will determine the VAT that can be reclaimed. If the car is used 100% for business purposes then all the VAT on fuel can be reclaimed. However, if there is an element of Private Use then this has to be taken into account and is done so through a fuel scale charge.

**VAT:** Can only be reclaimed on a company car if you can prove the car is used 100% exclusively for business. Commuting to and from work does not qualify as business use.

**Other considerations:** The type of vehicle purchased as a company vehicle can have an impact on the types and amounts of tax payable. This could include investing in a company van as opposed to a car or looking at electric or ultra low emission vehicles.

**Tax Reliefs:** When a company buys an asset (including a car), tax relief is obtained through Capital Allowances of which there are specific rules as to how much can be claimed. For cars, the amount of Capital Allowance that can be claimed is based on the level of CO2 emissions. For cars that are leased, the tax relief is based upon the payments made during the course of the financial year.

**Benefit in Kind (BIK):** This is the deemed value of the private element of the car use, calculated on the basis of the car list price and relevant CO2 emissions, with private fuel also assessed in the same way. This will be chargeable to income tax in a similar way to salary and dividends.

**CO2:** What level of CO2 emissions does the car produce? CO2 emissions will affect the deemed Benefit in Kind as well as the percentage at which Capital Allowances can be claimed.

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