

# Are low emissions cars tax efficient?

## Introduction

Significant changes are being made from 2020-21 to the company car tax benefits-in-kind bands affecting ultra-low emission vehicles (ULEVs).

The taxable benefit arising on a car is calculated using the car's full manufacturer's published UK list price, including the full value of any accessories. This figure is then multiplied by the 'appropriate percentage', which can be found by reference to the car's CO2 emissions level. This will give the taxable value of the car benefit. The employee pays income tax on the final figure at their appropriate tax rate: 20% for basic rate taxpayers, 40% for higher rate taxpayers and 45% for additional rate taxpayers. This formula means that in general terms, the lower the CO2 emissions of the car, the lower the resulting tax charge will be.



For 2019-20, the appropriate percentage for cars (whether fully electric or not) is 16% for those emitting 50g/km CO2 or below, and 19% for those emitting CO2 of between 51 and 75g/km. This means that the taxable benefit arising on a zero-emissions car costing, say £30,000 is £4,800, with tax payable of £960 for a basic rate taxpayer - for a higher rate taxpayer this equates to tax payable of £1,920

By way of comparison, a 2001cc petrol-engine car with a list price of £30,000, will attract an appropriate percentage of 37% in 2019-20. This equates to a taxable benefit charge of £11,100, and a liability of £2,220 a year for a basic rate taxpayer.

## New bands

In April 2020, new ULEV rates will be introduced, and the most tax efficient cars will be those with CO2 emissions below 50g/km. There will also be additional financial incentives for electric only cars

From 2020-21, five new bandings are being introduced for full and hybrid electric cars. Fully electric (zero emissions) cars will attract an appropriate percentage of just 2%. This means that the tax benefit arising on an electric car costing say, £30,000 will be just £600. The resulting tax payable by a basic rate taxpayer will be £120 a year and £240 for a higher rate taxpayer.

For cars emitting CO2 of between 1 and 50g/km, the appropriate percentage will depend on the car's electric range figure:

Mileage	Percentage
130 miles or more	2%
70 – 129 miles	5%
40-69 miles	8%
30-39 miles	12%
Less than 30 miles	14%

ULEVs with CO2 emissions of between 50g-74g/km CO2 will be on a graduated scale from 15% to 19% (as is currently the case, diesel-only vehicles will continue to attract a further 4% surcharge) as follows:

CO2 emissions	Percentage
51 to 54g/km	15%
55 to 59g/km	16%
60 to 64g/km	17%
65 to 69g/km	18%
70 to 74g/km	19%
75 or more	20%
Plus	1% per 5g/km
Up to a maximum	37%

Whilst the journey towards 'greener' driving has been, and continues to be, a rocky one, in 2014/15 a sub-130g/km petrol car was considered green enough to merit an 18% appropriate percentage. However, by 2020/21, the appropriate percentage on such a car will have risen to 30%. A sub-100g/km band car that was only subject to a

12% charge in 2014/15 will also have risen to 24% by 2020/21. On the other hand, clean air all-electric cars will finally plummet to 2% under the new company car tax incentives from April 2020.

The incentives in the new tax bands are clearly designed to encourage ULEVs as a company car driver's car of choice, and with around 1 million company car drivers in the UK, this benefit is likely to remain one of the most popular and potent perks of a job.

### **Recommendation**

The opportunity for your business to revisit your provision of company cars to employees in a tax efficient way. However, it is important that these maybe midterm temporary tax breaks on these vehicles while the sector is growing. It is therefore important to keep this under

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review as the Government will update the limits and tax benefit as technology moves forward.

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