

Electricity For Electric Cars – A Tax-free Benefit

Introduction

The Government is keen to encourage drivers to make environmentally friendly choices when it comes to choosing a car. As far as the company car tax market is concerned, tax policy is used to drive behaviour, rewarding drivers choosing lower emission cars with a lower tax charge, while penalising those whose choices are less green.

The use of the tax system to nudge drivers towards embracing electric cars also applies in relation to the taxation of 'fuel'. As a result, tax-free benefits are offered to those drivers who choose to 'go electric'.



Company car drivers

Electricity is not a 'fuel' for the purposes of the fuel benefit charge. This means that where an employee has an electric company car, the employer can meet the cost of all the electricity used in the car, including that for private journeys, without triggering a fuel benefit charge. This can offer significant savings when compared with the tax bill that would arise if the employer pays for the private fuel for a petrol or diesel car. However, it should be noted that a fuel charge may apply in relation to hybrid models.

Example

Maisy has an electric company car with a list price of £20,000. Her employer meets the cost of all electricity used in the car, including that for private motoring. As electricity is not a fuel for these purposes, there is no fuel benefit charge, and Maisy is enabled to enjoy her private motoring tax-free.

By way of comparison, the taxable benefit that would arise if the employer meets the cost of private motoring in a petrol or diesel company car with an appropriate percentage of 22% would be £5,302 (£24,100 @ 22%) for 2019/20. The associated tax bill would be £1,060.40 for a basic rate taxpayer and £2,120.80 for a higher rate taxpayer.

However, the rules do not mean that an employee loses out if they have an electric company car and initially meets the cost of electricity for business journeys and reclaim it from their employer. There is now an advisory fuel rate for electricity which allows employers to reimburse employees meeting the cost of electricity for business journeys at a rate of 4p per mile without triggering a tax bill. However, amounts in excess of 4p per mile will be chargeable.

Employees using their own cars

Currently, there is no separate rate for electric cars under the approved mileage payments scheme. This means that the usual rates apply where an employee uses his or her own electric car for business. Consequently, the employer can pay up to 45p per mile for the first 10,000 business miles in the year and 25p per mile for subsequent business miles tax-free. If the employer pays less than this, the employee can claim a deduction for the shortfall. Payments in excess of the approved amounts are taxable.

Employees with their own electric cars can also enjoy the benefit of tax-free electricity for private motoring – but only if they charge their car using a charging point provided by their employer at or near their place of work.

The exemption also applies to cars in which the employee is a passenger, so would apply, for example, if an employee's spouse drove the employee to work, charging their car when dropping the employee off or picking the employee up.

Recommendation

The future direction for the UK Government is to deliver a greener economy and therefore businesses will need to consider further investments carefully. Emissions and carbon footprint will become important strategic goals for business. Therefore, taking the opportunity to invest in this technology could prove beneficial to your businesses and employees

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