

When is a car a pool car?

Introduction

Rather than allocating specific cars to particular employees, some employers find it preferable to operate a carpool and have a number of cars available for use by employees when they need to undertake a business journey. From a tax perspective, provided that certain conditions are met, no benefit in kind tax charge will arise where an employee makes use of a pool car.



The conditions

There are five conditions that must be met for a car to be treated as a pool car for tax purposes.

1. The car is made available to, and actually is used by, more than one employee.
2. In each case, it is made available by reason of the employee's employment.
3. The car is not ordinarily used by one employee to the exclusion of the others.
4. In each case, any private use by the employee is merely incidental to the employee's business use of the car.
5. The car is not normally kept overnight on or in the vicinity of any of the residential premises where any of the employees was residing (subject to an exception if kept overnight on premises occupied by the person making the cars available).

The tax exemption only applies if all five conditions are met.

When private use is 'merely incidental'

To meet the definition of a pool car, the car should only be available for genuine business use. However, in deciding whether this test is met, private use is disregarded as long as that private use is 'merely incidental' to the employee's business use of the car.

HMRC regard the test as being a qualitative rather than a quantitative test. It does not refer to the actual private mileage, rather the private element in the context of the journey as a whole. For example, if an employee is required to make a long business journey and takes the car home the previous evening in order to get an early start, the private use comprising the journey from work to home the previous evening would be regarded as 'merely incidental'. The car is taken home to facilitate the business journey the following day.

Kept overnight at employee's homes – the 60% test

For a car to meet the definition of a pool car, it must not normally be kept overnight at employees' homes. In deciding whether this test is met, HMRC apply a rule of thumb – as long as the total number of nights on which a car is taken home by employees, for whatever reason, is less than 60% of the total number of nights in the period, HMRC accept that the condition is met.



When a benefit in kind tax charge arises

If the car does not meet the definition of a pool car and is made available for the employee's private use, a tax charge will arise under the company car tax rules.

Recommendation

Company cars are an important area which HMRC will enquire into as part of their review of your payroll and compliance. This is based on their experience of businesses understanding of Pool Cars and application of the rules. It is important to regularly review the use of company vehicles to see they continue to meet the Pool car rules to avoid penalties and interest.

Information to readers

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