Comprehensive Guide to Funding and Taxation

2017

Your Guide

Produced in association with
Deloitte.

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Getting Started

Welcome to the 2017 edition of LeasePlan's annual guide to company vehicle taxation and fleet funding, produced in association with Deloitte.

Foreword

What a year it's been! In the time since LeasePlan published its last annual fleet funding and taxation guide in association with Deloitte, there have been several major developments that will affect the fleet industry – and, indeed, the country as a whole. The British public has voted to leave the European Union; a new Prime Minister has moved into Number 10; the Conservative Party has lost the slim majority it had in Parliament; and a new Air Quality Plan (AQP) has been published to tackle diesel emissions. It's quite a list.

There have also been some smaller, more specific changes that will nevertheless have profound implications for fleet professionals. For example, two major changes to vehicle taxation came into force in April: a new system of Vehicle Excise Duty (VED) based on a car's carbon dioxide (CO_2) emissions, and reforms to the tax treatment of Optional Remuneration Arrangements (OpRA). And there's more to come. In his first Autumn Statement as Chancellor, Philip Hammond announced a new system of Company Car Tax (CCT) to take effect in April 2020 although this was removed from the Finance Bill – it remains on the back burner.

We detail what these changes mean later in this report. One thing worth noting from the beginning is that they all work to encourage the uptake of Ultra-Low Emission Vehicles (ULEVs), which are those vehicles that emit less than 75 grammes of CO_2 per kilometre. Under the new VED regime, all ULEVs face lower first-year rates than more polluting vehicles, while most zero-emission vehicles are free from VED entirely. They have also been exempted from the OpRA tax changes. and the proposed CCT system will significantly reduce the appropriate percentages imposed on most ULEVs, and increase them for most of their traditionally-fuelled counterparts.

LeasePlan welcomes any support for the ULEV market that has grown by 24% over the past year – not least because it will improve the quality of the air that we all breathe. However, there is still a lot of uncertainty surrounding these policies, and uncertainty is no good thing for the fleet industry.

The biggest uncertainty surrounds a separate package of legislation, the AQP that was published at the end of July. This includes a number of policies for tackling diesel emissions – in particular, an expansion of Clean Air Zones – but it also leaves a lot of policies undetermined. Will there be a scrappage scheme to help diesel motorists move to alternative vehicles? That's now the subject of a consultation process. Will there be further tax increases for diesel vehicles? We've been told to wait until the forthcoming Autumn Budget to find out. Motorists will have lots of questions at the moment, but not enough answers.

At the same time, we will all need to get our heads around the new Worldwide Harmonised Light Vehicle Testing Procedures (WLTP), which are due to take effect in September. This is the first step towards a more realistic testing regime, and one that does more to show what will happen to CO_2 emissions and fuel consumption when the basic vehicle is changed. This will bring additional complexity to policy-writing, as various calculations – including CCT liabilities and Class 1 National Insurance Contributions (NICs) – depend on those CO_2 figures. Robust Whole Life Cost (WLC) policies are going to be ever more crucial to fleets.

Rarely have fleets faced greater changes. But some things remain constant – and that includes LeasePlan's support for its customers. This document explains the tax changes mentioned above, and much more, as well as detailing how they will affect fleets. Our consultants are available and eager to do likewise. Please don't hesitate to get in touch.

Matthew Walters
Head of Consultancy and Data Services - LeasePlan UK

About this book

This book has been prepared to highlight some of the key issues that fleet, finance, tax, HR and reward professionals should consider when reviewing the car scheme arrangements. It is intended to serve as a handy reference to the key tax and technical issues that need to be addressed before financially important decisions relating to company car provision are made.

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Finance Act 2017

What's next?

The Finance Act 2017 & Optional Remuneration legislation

Introduction

In this year's Spring Budget on the 8 March, the Government made a number of announcements that will affect car scheme arrangements. In the main, these announcements were in line with the Budget measures we have seen in previous years, with minor changes being made to rates and thresholds within existing legislation. However, in addition to the Budget announcements, the Finance Act 2017 introduced new legislation that is likely to have the most noticeable effect on company car provision for many years. Given the broad reach of the new legislation it is important to understand what the changes may mean for companies, their employees, and fleet providers.

Optional Remuneration legislation

The Finance Act 2017 included new rules that impact employers who operate salary sacrifice schemes and arrangements or schemes that involve cash alternatives to benefits, and in some cases payments that are currently exempt from tax. The new law describes these as Optional Remuneration Arrangements (OpRA). The OpRA legislation is intended to limit the income tax and employer National Insurance Contributions (NICs) advantages where Benefits In Kind (BIKs) are provided through salary sacrifice arrangements.

However, due to the way in which it is structured, the scope of the legislation is much broader than just salary sacrifice arrangements. It also extends to arrangements where an employee is offered a benefit, or a cash allowance as a possible alternative to that benefit. As a result, the new legislation also affects car scheme arrangements where employees are offered the choice of a company car or a cash allowance (typically known as 'cash or car' arrangements). Due to the broad reach and the potential implications, it could be argued that the OpRA legislation is the most significant change affecting car schemes in recent years. Therefore, it is important for employers and employees to take the time to understand the new legislation and what it means for them.

Overview of the OpRA legislation

The key features of the new legislation are:

- The rules apply for new arrangements entered into on, or after, 6 April 2017 or existing arrangements varied on or after 6 April 2017 (this is explored below).
- The legislation defines two types of optional arrangement that fall within its scope. These are:
    - A Type A arrangement, which is where the employee gives up the right, or the future right, to receive an amount of earnings which would be chargeable to tax in return for the benefit (for example a salary sacrifice); and
    - A Type B arrangement, which is an arrangement, other than a Type A arrangement, under which the employee agrees to be provided with a benefit rather than an amount of earnings (for example the option of a cash allowance)
- Under the legislation there is a new method for calculating the value associated with company-provided benefits that are subject to OpRA, which can alter the value of the BIK for income tax and employer NICs.
- The legislation sets out how to deal with deductions for associated issues, such as Private Use Contributions (PUCs) and capital contributions made by employees, where the OpRA law applies.
- There are transitional rules that will mitigate the impact of the new legislation for arrangements that were in place before 6 April 2017.
- Changes made to existing arrangements after 5 April could see protection offered by the transitional rules fall away.
- There is a carve-out for Ultra-Low Emission Vehicles (ULEVs) with CO_2 emissions of 75g/km or less.
- Approved Mileage Allowance Payments (AMAPs) are in scope of the new legislation. Where the OpRA law applies it will usually prevent any tax exemption that might otherwise apply from doing so, and instead impose a tax charge based on the salary sacrificed or cash alternative offered.

Affected arrangements

The two most common types of car scheme arrangement that will be affected by the new legislation are:

- 'Cash or car' type schemes where employees have the choice between a company car or a cash allowance; and
- Salary sacrifice schemes used to provide employees with a company car.

In both of these arrangements the employee has the choice of receiving an amount of earnings (either the salary or cash allowance) which they can opt to forgo in return for the provision of a benefit (the company car). As a result, both types of arrangement fall firmly within the scope of the OpRA legislation.

In addition, the new legislation will also affect the following type of arrangements where AMAPs are utilised:

- Employee Car Ownership Plans (ECOPs); and
- Optimised cash allowance arrangements.

These arrangements are typically structured so as to guarantee the financial position for participating employees. This is achieved by paying employees a mix of AMAPs and an additional cash top-up which may vary each month based on business mileage levels. In their current form, these arrangements would be considered to be in scope of the OpRA legislation. This is because the employee is participating in an arrangement where they receive a benefit (AMAPs) instead of the whole of, or part of, a cash allowance (the cash top-up). Therefore, these arrangements would be deemed a Type B arrangement as set out in the OpRA legislation.

Unaffected arrangements

The new legislation is intended to catch OpRA only. Where employees are provided with a car and there is no cash alternative or salary sacrifice involved, the arrangements will fall outside the scope of the new legislation and will be unaffected. Examples of this type of scheme seen in practice include:

- Business-need fleets where employees in a particular role or grade are only provided with a company car in order to enable them to carry out their job.
- Segmented fleets where employees travelling over a specified business mileage threshold are required to take a company car with no option to choose a cash allowance.
- ECOP arrangements offered by employers to their employees that do not rely on AMAPs to meet employee funding requirements.

Timetable, transitional rules

The OpRA legislation included transitional rules designed to mitigate the impact of the new legislation for companies and employees already committed to existing arrangements. The transitional rules, also known as 'grandfathering provisions', apply for existing arrangements that were in place before 6 April 2017. The intention of the grandfathering provisions is to allow companies and employees who were already in existing arrangements to see out their commitments under the law that applied when the arrangements were made.

It is accepted by HMRC that an agreement between employee and employer to enter into either a salary sacrifice arrangement or a car or cash arrangement before 6 April 2017, will be covered by the grandfathering provisions.

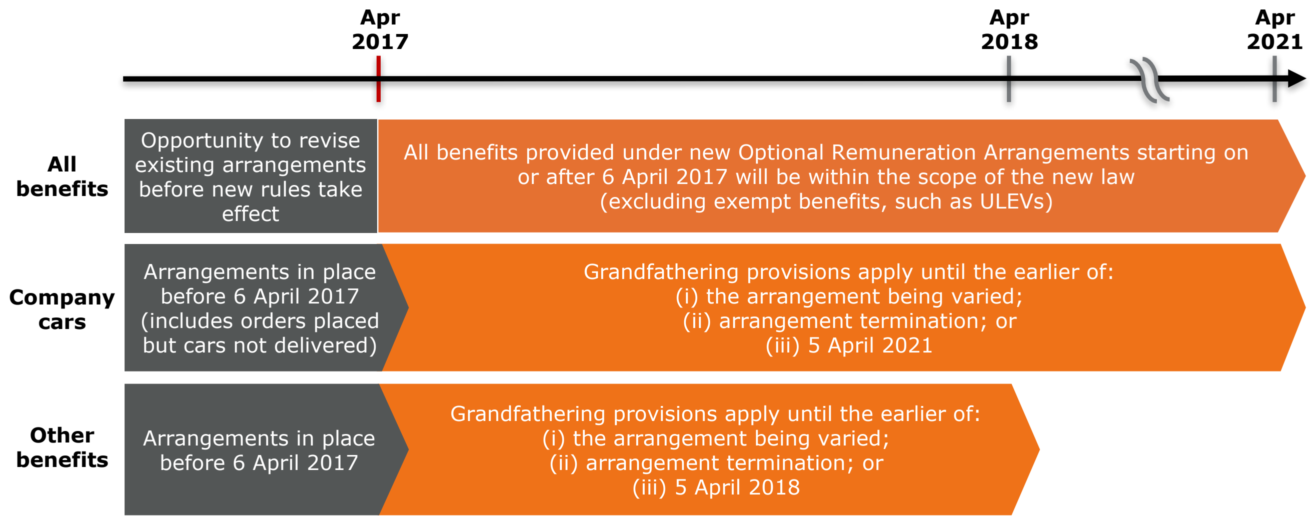
Under the grandfathering provisions, arrangements providing company cars will continue to be subject to the previous tax rules until the earliest of:

- 5 April 2021 where the benefit provided is a company car;
- 5 April 2018 for other car scheme benefits (such as an ECOP);
- The end of the arrangement i.e. when a vehicle lease contract ends; or
- A variation in the terms of the agreement.

The diagram below illustrates the timetable involved with the implementation of the OpRA legislation and the lifetime of the grandfathering provisions.

OpRA | Transitional arrangements

Grandfathering provisions



Variations affecting grandfathering provisions

It is important to note that any renewal or variation to the terms of a grandfathered arrangement that is within the control of the company or employee that takes place on, or after, 6 April 2017 could be sufficient to end the grandfathering provisions. This can present issues in relation to car schemes because it is fairly common for arrangements and contracts to be varied to reflect changing driver and/or employer requirements or changes in policy.

Although guidance released by HMRC on 20 March did not specify the variations that will affect arrangements entered into before 6 April, it is expected that the following changes often involved with car schemes could result in grandfathering provisions ceasing:

- Materially changing a car order before delivery.
- Extending the term of a contract (either a formal or informal extension).
- Re-contracting to other terms of an agreement, for example changing the agreed contract term.
- Changing the level of cash allowances provided.
- Changing business mileage reimbursement rates (for ECOP and optimised cash allowance arrangements).

The guidance released by HMRC did include information on the potential changes to arrangements that would not impact grandfathering provisions. The guidance said:

“An arrangement is not regarded as being varied if the variation is only in connection with a replacement* because of accidental damage or otherwise for reasons beyond the control of the parties. Variation of arrangement is disregarded if the variation is in connection with the employee’s entitlement to statutory sick pay, statutory maternity pay, statutory adoption pay, statutory paternity pay or statutory shared parental pay.”

** Grandfathering will only apply where a replacement is provided for the duration of the original arrangement i.e. if a car is written off 30 months into a 48 month contract then the replacement will need to be provided for 18 months. As a result, employers and lessors may need to consider how best to replace cars in this situation to maintain grandfathering provisions if this is desirable. Also, the replacement car should be comparable to the car being replaced.*

Ultra-Low Emission Vehicles

The OpRA legislation includes a carve-out for ULEVs, that is, company cars with CO_2 emissions of 75g/km or less. As a result, these cars will be unaffected by the new legislation, even if they are provided in a 'cash or car' arrangement or salary sacrifice scheme. Currently, the only vehicles available in the UK that meet these emissions criteria are electric, hybrids (petrol, diesel or plug-in) and fuel cell vehicles.

The carve-out is intended to promote the adoption of ULEVs by offering employees a financial incentive in the form of lower rates of Company Car Tax (CCT). However, it is likely that companies and employees will look at more than just CCT bills when considering ULEVs. A range of other factors, such as the cost of new technology, range anxiety and the practicality of charging vehicles, are likely to inform the decision making process.

Understanding the impact on cash or car type schemes

For a cash or car scheme the OpRA legislation provides that the taxable benefit value is the greater of:
1. The cash allowance value; or
2. The company car BIK value.

As a result of the new legislation, if an employee chooses a company car where:

- The cash allowance is **greater** than company car BIK value **this will be affected**;
- The cash allowance is **less than** company car BIK value **this will be unaffected**.

Financial implications

Where a company car is provided in a cash or car type arrangement and, it is affected by the OpRA legislation, then the financial implications are:

- Employer Class 1A NIC costs will increase; and
- Employee income tax costs will increase.

The financial impact will be most noticeable for company cars that have a low company car BIK value (except ULEVs). This is because the difference between the company car BIK value and the cash allowance offered as an alternative is likely to be greatest for these cars. The two key factors that will influence the company car BIK value are:
- The P11D list price of the car; and
- The appropriate percentage based on the car's CO_2 emissions and fuel type.

It is worth noting that, broadly speaking, the rates of CCT will rise in future tax years. As a result, the financial impact of the OpRA legislation for cash or car type schemes is likely to diminish, or even disappear completely, over time as CCT rates increase.

Let's look at some examples

Example 1: Cash or car type scheme with a £5,500 cash allowance offered

The table below shows the calculation of the company car BIK value under previous rules applying before 6 April 2017. Under the previous rules, the value of the cash allowance was irrelevant for the BIK calculation.

Company car benefit calculation (2017/18)	
P11D list price(a)	£20,000
CO_2 emissions	110g/km
Fuel type	Diesel
Appropriate percentage(b)	24%
Company car BIK (a x b)	£4,800

However, under the OpRA legislation, the benefit value will be the greater of:
- The cash allowance: £5,500; or
- The company car BIK: £4,800.

The impact of the new legislation for this example is shown in the table below:

Company car BIK calculation (2017/18)				
	Previous rules	**OpRA rules**	**Increase (as £s)**	**Increase (as %)**
BIK value	£4,800	£5,500	£700	
Employer NIC Class 1A NIC cost	£662	£759	£97	
Employee income tax cost (at 45%)	£2,160	£2,475	£315	14.6%
Employee income tax cost (at 40%)	£1,920	£2,200	£280	
Employee income tax cost (at 20%)	£960	£1,100	£140	

Example 2: Cash or car type scheme with a £5,500 cash allowance offered

The table below extends the previous example to examine the impact of the OpRA legislation over a number of tax years to illustrate the impact of changing company car tax rates.

Company car BIK benefit calculation (36 month contract term)			
	2017/18	**2018/19**	**2019/20**
Company car BIK value	£4,800	£5,200	£5,800
Cash allowance	£5,500	£5,500	£5,500
Benefit calculation affected by OpRA rules	Yes	Yes	No
Increase in BIK value under OpRA rules	£700 (14.6%)	£300 (5.8%)	n/a

Other implications

In addition to increased costs, the OpRA legislation may also have the following implications for cash or car schemes:

- Employers may change their car scheme arrangements to:
    - Move them out of scope of the OpRA legislation e.g. moving to a company car only or cash allowance only policy.
    - Change the mix of cars available for selection to focus on cars that are most cost effective under the new legislation.
    - Explore the opportunities presented by including ULEVs in vehicle choice lists.
    - Provide revised employee communication materials where they contain information on the tax implications of selecting a company car.
- Employers are likely to require changes to existing systems and processes to administer the new legislation.
- There will be a period of adjustment for employers and fleet providers where they need to get to grips with the new legislation (this may also apply to employees).

Understanding the impact on salary sacrifice for company car schemes

For salary sacrifice schemes under the OpRA legislation the taxable benefit value will be the greater of:

1. The value of the salary sacrificed; or
2. The company car BIK.

As a result of the new legislation, if an employee chooses a company car and:

- The value of the salary sacrificed is **greater than** company car BIK value, this will be affected; or
- The value of the salary sacrificed is **less than** company car BIK value, this will be unaffected and will operate as it does now.

Key salary sacrifice considerations

Understanding the implications of the new legislation for salary sacrifice schemes will be more complex than cash or car type arrangements because:

- The company car BIK value is typically an input in the calculation of the salary sacrifice amount so the new legislation can have an interrelated impact on both values.
- Salary sacrifice calculations are usually carried out over the lifetime of the car and then averaged out to give a fixed sacrifice for the term, but the company car BIK value will vary between tax years.
- There is no standard salary sacrifice calculation and so the potential impact of the new legislation may vary depending on the scheme structure implemented.
- Vehicle discounts affect car finance costs and salary sacrifice amounts and these will vary between employers, and in some cases between different cars in the same scheme.
- The personal circumstances of the individual will have an effect. For, example, where the individual has different contract terms, or falls into different insurance categories, this can affect the salary sacrifice calculations.

Financial implications

If a company car is provided in a salary sacrifice arrangement and it is affected by the new legislation then the financial implication for the employee is that their costs will increase. However, for a company, it is anticipated that the costs will be unaffected because the salary sacrifice schemes will be revised to maintain the company position under the new legislation.

The profile of cars in salary sacrifice schemes that will be affected by the new legislation will broadly be the same as for cash or car type schemes, with cars with lower P11D and CO_2 emissions seeing the biggest financial impact. An additional factor to consider is the level of vehicle discount involved, because this affects the salary sacrifice value. As a result, two cars with a similar P11D and CO_2 emissions may perform differently under the new legislation because one attracts a high level of vehicle discount and the other does not. This will also be affected by the employee's personal circumstances as the amount of mileage and insurance they select will affect the salary sacrifice value. This means two employees with similar P11D and CO_2 emissions car choices may be affected differently by the new legislation where their insurance is different or they are allowed a different amount of miles within their car scheme.

Let's look at an example

Example:

Employer position

The table below shows the employer costs that would typically be included in the calculation of a company car salary sacrifice when moving from the previous rules to the new OpRA legislation.

Employer costs	Previous rules	OpRA rules	Difference
Lease rentals(1)	£3,143	£3,143	-
Maintenance(1)	£442	£442	-
Motor insurance	£800	£800	-
Other scheme costs(2)	£180	£180	-
Class 1A NIC on BIK	£305(3)	£630(4)	£325
Total (employer costs to fund)	£4,870	£5,195	£325

(1) Figures shown after applicable VAT recovery
(2) Other scheme costs may include items like employer contingency, early termination insurance etc.
(3) Assumes a petrol engine car CO_2 emissions of 90g/km and a P11D list price of £13,010 giving a company car BIK value of £2,212 in the 2017/18 tax year.
(4) Assumes a gross sacrifice of £4,565.

The table below shows how the vehicle costs shown above would translate into a salary sacrifice amount that is calculated to leave the employer in a cost neutral position after the total costs to fund and total savings are all taken into consideration.

Salary sacrifice calculation	Previous rules	OpRA rules	Difference
Gross employee salary sacrifice	£4,279	£4,565	£286
Class 1 NIC saved on salary sacrifice	£591	£630	£39
Total (employer cost reductions)	£4,870	£5,195	£325

The figures above show that in this example the gross employee salary sacrifice will increase by 6.7% as a result of the new OpRA legislation which will increase employee costs (see below). The employer position remains the same because the cost increase is passed on to the employee through the higher salary sacrifice amount.

Employee position:

The table below shows the net impact on the employee of the increase in the salary sacrifice amount when moving from the previous rules to the new OpRA legislation.

Employee salary sacrifice cost	Previous rules	OpRA rules	Difference
Gross salary sacrifice	£4,279	£4,565	£286
- less income tax at 40%	(£1,712)	(£1,826)	£114
- less NIC at 2%	(£86)	(£91)	£5
Net salary sacrifice	£2,481	£2,648	£167

In addition to the net sacrifice, the employee will also have to pay income tax as a result of receiving a company car via salary sacrifice. The table below shows the impact on the employee income tax costs when moving from the previous rules to the new OpRA legislation.

Employee income tax cost	Previous rules	OpRA rules	Difference
BIK value	£2,212	£4,565	£2,353
Income tax due at 40%	£885	£1,826	£941

Other implications

The new legislation may also have the following implications for salary sacrifice schemes (in addition the implications listed for cash or car schemes):

- Employers are likely to re-evaluate the benefits of salary sacrifice and decide whether to implement new arrangements or continue with existing schemes in place.
- Salary sacrifice providers may consider:
    - A revised sales and marketing approach to help employers understand the benefits offered by a salary sacrifice arrangement under the new OpRA legislation.
    - Changes to communications and sales materials for employees considering a salary sacrifice car.
    - Updates to existing systems and processes to reflect revised salary sacrifice calculations.

The future of salary sacrifice arrangements

Since the original release of the HMRC consultation paper in August 2016 there has been a great deal of uncertainty surrounding salary sacrifice arrangements and whether they would continue to be viable under the new the legislation.

As a direct result, some employers considering implementing new salary sacrifice arrangements put plans on hold or cancelled them altogether. Also, for existing arrangements the uncertainty resulted in a large drop in vehicle orders and in some cases schemes were closed.

The publication of the OpRA legislation helped to clarify the following key issues:

- Grandfathering applies so that arrangements in place before 6 April 2017 should remain unaffected for their duration, assuming no variation is made.
- It has been possible to evaluate and advise on the financial implications of operating salary sacrifice arrangements under the new legislation; in many cases there will be little or no change.
- ULEVs are carved out so the new legislation will not affect these cars, even for new arrangements after 6 April 2017.

The clarity on these issues should allow employers and fleet providers to move forward and make informed decisions on the implementation and operation of their salary sacrifice schemes.

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The Budget

What's next?

The Budget

The following sections of this document examine the Spring Budget 2017 announcements in more detail, alongside some of the core concepts on company car and business taxes.

Spring 2017 Budget – Headlines

With the introduction of new legislation relating to OpRA being announced, the Budget this year brings the biggest overhaul of CCT in recent years. Previously the Chancellor has used the Budget to announce changes to thresholds, rates and allowances within the existing structure of the taxation rules relevant for company cars. The Budget this year followed a similar pattern (other than the OpRA announcement), with the announcement of a number of changes that will impact both companies and employees, the main purpose being to encourage individuals to choose lower emission cars.

The current taxation system for company cars, which includes all direct and indirect taxes, is based on CO_2 emissions and designed to encourage the choice of lower emission vehicles. The changes announced in the Budget are mainly alterations to thresholds within the current structure of the system which are designed to increase those incentives but also aim to attract more tax going forward.

The main headlines from the Spring Budget 2017 (not including the OpRA changes mentioned above) were:

- New CCT rates were announced. To provide stronger incentives for the purchase of ULEVs, new, lower bands will be introduced for the lowest emitting cars. The appropriate percentages for cars with CO_2 emissions over than 90g/km will rise by 1 percentage point up to a maximum of 37%.
- The annual Retail Prices Index (RPI) increases to the fuel benefit multiplier and Vehicle Excise Duty (VED) rates will also continue.
- Measures announced at Autumn Statement 2016 taking effect.

The following sections of this book examine the Spring Budget 2017 announcements in more detail alongside some of the core concepts on company car and business taxes that are intended to assist in understanding the potential impact of the Spring Budget 2017 for companies and their employees.

The Spring 2017 Budget in detail

The 2017 Spring Budget was delivered on 8 March and contained a number of announcements affecting the taxation rules for company cars. In addition, changes that had previously been announced came into effect in April 2017, and so the financial implications for companies and employees with company cars will have changed.

It is important when analysing the detail of the Budget announcements to relate them to the financial implications for employers and company car drivers. The following pages detail important announcements from the Spring Budget 2017, and rules previously announced, set out in order of when they will come into effect and grouped into core subject areas that relate to the concepts covered later in the book to provide an easy reference point for the reader.

A timeline of changes

From April 2017

Corporation tax

- There is to be a 1 percentage point reduction in the main rate of corporation tax, with the main rate falling from 20% to 19%.

Company car benefit

- The 3 percentage point surcharge applied to diesel cars is retained until April 2021.
- CCT rates are increased by 2 percentage points up to a maximum of 37% (this includes ULEVs).
- The CCT rates for cars with CO_2 emissions exceeding 75g/km now start at 17%.

Vehicle Excise Duty

- For cars registered on, or after 1 April 2017, a new first year rate linked to CO_2 emissions will apply. A standard charge of £140 will apply in subsequent years for most cars. The standard rate for cars with CO_2 emissions of 0g/km will be zero, and there will be a supplement (£310 per year) to the standard rate for cars with a list price exceeding £40,000.

From April 2018

Company car benefit

- The CCT rate for cars with CO_2 emissions of 0-50g/km is set to increase by 4 percentage points to 13%.
- The CCT rate for cars with CO_2 emissions of 51-75g/km is set to increase by 3 percentage points to 16%.
- The CCT rates for cars with CO_2 emissions exceeding 75g/km are set to increase by 2 percentage points (up to a maximum of 37%).

Corporation tax relief

- The CO_2 emissions threshold for the main rate of capital allowances for company cars will be reduced from 130g/km to 110g/km from April 2018 (applies to purchased cars).
- CO_2 emissions threshold where cars are eligible for a 100% First Year Allowance (FYA) will be reduced from 75g/km to 50g/km.

From April 2019

Company car benefit

- The CCT rate for cars with CO_2 emissions of 0-50g/km is set to increase by 3 percentage points to 16%.
- The CCT rate for cars with CO_2 emissions of 51-75g/km is set to increase by 3 percentage points to 19%.
- The CCT rates for cars with CO_2 emissions exceeding 75g/km are set to increase by 3 percentage points (up to a maximum of 37%).

From April 2020

Corporation tax

- There is to be a 2% reduction in the main rate of corporation tax, with the main rate falling from 19% to 17%.

From April 2021

Company car benefit

- The 3% surcharge applied to diesel cars is set to be abolished.

What will be the impact of all these changes?

The provision of company cars by a business to its employees can be a difficult area to understand and with significant costs involved it is something companies will want to get right. There are many different taxation rules and these are often interlinked with additional commercial and operational considerations that can impact the cost and effectiveness of a car scheme. Therefore, it is important for companies to take a holistic approach to managing their arrangements to make sure that their choices will deliver a car scheme that is right for the company and its employees, now and in the future.

To help highlight some of the key issues relevant for company car provision, we have included four case studies, each looking at different aspects of company car provision. For each case study, the introduction and assumptions set the scene, with the results and observations providing insight into the key issues.

Case study 1: Cash or car scheme under OpRA

Introduction

The Finance Act 2017 introduced new legislation affecting the way in which company cars provided in a cash or car arrangement are taxed. With many companies operating this type of arrangement the new rules will have a broad reach and there will be financial implications for employers providing cars, as well as the employees receiving them.

This case study is designed to highlight the financial implications of the new OpRA legislation for cash or car type arrangements. The case study compares the cost of funding a selection of company cars based on previous company car tax rules, and then the same selection of cars provided under the new OpRA legislation.

Assumptions

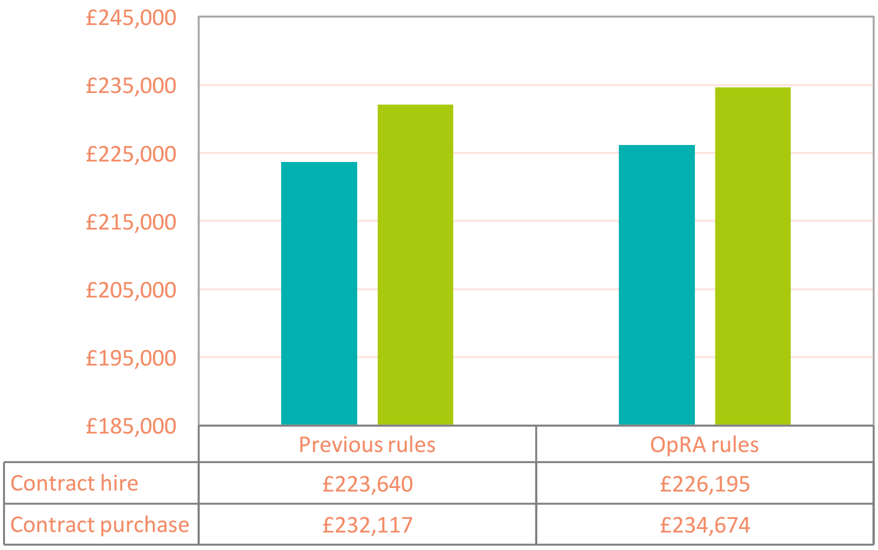
In this case study the company is assumed to have a Weighted Average Cost of Capital (WACC) of 10% and is able to fully recover VAT. The cars are provided on a 48-month term with a contract mileage of 80,000 miles, with 50% of the mileage driven as business mileage reimbursed at HMRC's Advisory Fuel Rates. The car scheme provides employees with a company car or the choice of a cash allowance and so will be in scope of the OpRA legislation.

The selection of cars analysed includes:

- 4 small hatchbacks (e.g. VW Polo, Ford Ka, Nissan Juke) with CO_2 emissions between 97g/km and 114g/km where the cash allowance offered was £4,500 per annum.
- 4 medium hatchbacks (e.g. Ford Focus, Vauxhall Astra, BMW 1 Series) with CO_2 emissions between 89g/km and 128g/km where the cash allowance offered was £5,400 per annum.
- 4 medium saloons (e.g. Audi A4, Ford Mondeo, VW Passat) with CO_2 emissions between 99g/km and 112g/km.

Results

The chart and table below show the Whole Life Cost (WLC) of funding the cars selected based on the rules applying before the OpRA legislation (previous rules), and then compared to the WLC of the same cars provided under the new OpRA rules.



The results show that the WLC of funding the selected cars, either as a leased or a purchased fleet, will increase as a result of the new OpRA legislation, with a rise of approximately 1.1% across the cars analysed. The increased cost is due to the fact that the company car BIK is higher for some of the cars under the OpRA legislation. As a result, the cost of employer Class 1A NIC due on the company car BIK rises, and in turn this increases the WLC of funding the company cars. The increase in company car BIK will also result in an increased cost of income tax paid by employees on the company car BIK.

However, it is important to note that the financial impact of the OpRA legislation will vary depending on the P11D list price and CO_2 emissions of the cars provided. The table below shows the WLC increase under the OpRA legislation where the cars analysed are grouped together based on their P11D list price and CO_2 emissions.

	P11D List price		CO_2 emissions		WLC cost increase under OpRA		
Type of car	Min.	Max.	Min.	Max.	Average	Max.	Min.
Small hatchback	£9,330	£17,000	97	114	2.7%	5.8%	1.0%
Medium hatchback	£19,020	£22,985	89	128	1.4%	2.2%	0.6%
Medium saloon	£25,930	£30,490	99	112	0.0%	0.0%	0.0%

The results show that in general, cars with a low P11D list price and low CO_2 emissions, such as the small hatchbacks examined, are likely to see the biggest impact of the OpRA legislation. Whereas cars with higher P11D list prices and/or CO_2 emissions, such as the medium hatchbacks and saloons, are likely to see a smaller financial impact or none at all.

Case study 2: Salary sacrifice schemes under OpRA

Introduction

The introduction of the new OpRA legislation has also affected salary sacrifice for company car arrangements. In addition to the impact on the way in which company cars are taxed, the new legislation has also affected the way in which many companies and fleet providers calculate salary sacrifice values. The option for companies to change salary sacrifice calculations has allowed them to mitigate the financial impact of the new legislation. However, where employees are affected by the new legislation they will see their costs increase.

This case study is designed to highlight the financial implications of the new OpRA legislation for salary sacrifice for company car arrangements. The case study examines the salary sacrifice calculation and net employee cost of cars provided in a salary sacrifice arrangement on previous company car tax rules, and then the same selection of cars provided under the new OpRA legislation that took effect from 6 April 2017.

Assumptions

In this case study the company cars are provided in a salary sacrifice arrangement that has been designed to be cost neutral for the employer. The cars are funded using contract hire by a business that is able to fully recover VAT and the cars were provided on a 36-month term and a contract mileage of 30,000 miles. The selection of cars was chosen to represent cars that are popular choices in salary sacrifice arrangements.

The selection of cars analysed includes:

- Superminis (e.g. Ford Ka, Vauxhall Adam).
- Small hatchbacks (e.g. Ford Fiesta, VW Polo, SEAT Ibiza).
- Medium hatchbacks (e.g. VW Golf, Audi A3, BMW 1 Series).
- Crossovers (e.g. Nissan Qashqai)
- A ULEV (e.g. BMW 330e).

Results

The table below demonstrates how monthly costs would increase for a higher rate tax payer taking a salary sacrifice company car under the new OpRA rules when compared to the previous CCT rules.

				Net salary sacrifice (a)		Company car tax (b)		Net cost of car (a + b)	
Description	P11D list price	CO_2 emissions	Fuel type	Increase £s	Increase %	Increase £s	Increase %	Increase £s	Increase %
Supermini	£12,965	125	Petrol	£2	1.1%	£13	11.5%	£15	4.9%
Supermini	£14,320	98	Petrol	£4	2.2%	£29	29.9%	£33	10.7%
Small hatchback	£15,270	97	Petrol	£5	2.7%	£26	25.0%	£31	9.7%
Small hatchback	£15,255	98	Petrol	£3	1.7%	£19	18.4%	£22	7.4%
Medium hatchback	£19,770	104	Petrol	£3	1.4%	£12	8.5%	£15	4.0%
Medium hatchback	£19,315	109	Petrol	£2	0.9%	£12	8.3%	£14	3.7%
Medium hatchback	£26,845	109	Diesel	£0	0.0%	£0	0.0%	£0	0.0%
Medium hatchback	£22,455	89	Diesel	£2	0.8%	£11	6.5%	£13	3.0%
Medium hatchback	£23,945	89	Diesel	£1	0.4%	£8	4.5%	£9	2.0%
Crossover	£18,655	104	Diesel	£1	0.5%	£2	1.3%	£3	0.8%
Crossover	£21,475	129	Petrol	£0	0.0%	£0	0.0%	£0	0.0%
ULEV	£34,420	44	Petrol/Elec. Hybrid	£0	0.0%	£0	0.0%	£0	0.0%

The results show that for the majority of the cars analysed there is little or no financial impact as a result of the new OpRA legislation. This will occur where the value of the company car BIK for these cars exceeds, or is very close to, the amount of salary sacrificed and so there will be little or no impact. Also, any ULEVs will also be unaffected, regardless of their P11D list price, because of the carve-out from the OpRA legislation.

For the cars that are affected, the general pattern follows that for cash or car type schemes where the financial impact is greater for cars with a low P11D list price and/or low CO_2 emissions. This is because the difference between the value of the salary sacrifice and the value of the company car BIK under previous CCT rules is likely to be greatest for these cars.

Case study 3: Budget announcements

Introduction

Over recent years it has been Government policy to announce changes to the rules affecting car schemes and company car taxation a number of years in advance. With many companies and employees now keeping company cars for four years this is important to enable people choosing their company car to have a fair degree of certainty about the implications of their choices.

This case study is designed to highlight the financial implications of changes announced by the Government to the rules impacting car schemes by comparing funding costs of a fleet based on rules applicable before the Spring Budget 2017, and then the same fleet taking account of any new rules announced or coming into effect from April 2017.

Assumptions

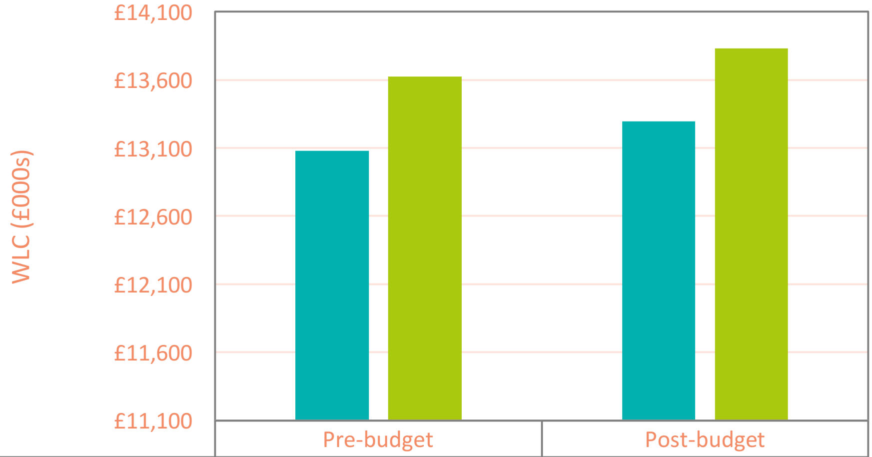
In this case study the company is assumed to have a Weighted Average Cost of Capital (WACC) of 10% and is able to fully recover VAT. The cars are provided on a 48-month term with a contract mileage of 80,000 miles, with 75% of the mileage driven as business mileage reimbursed at HMRC's Advisory Fuel Rates. The car scheme provides employees with a company car without the choice of a cash allowance and so will be unaffected by the OpRA legislation.

The fleet contains 620 vehicles, made up as follows:

- 45 small diesel hatchbacks (e.g. Ford Fiesta) with CO_2 emissions of 94g/km.
- 35 small petrol hatchbacks (e.g. Vauxhall Corsa) with CO_2 emissions of 119g/km.
- 285 medium hatchback or saloons (e.g. Ford Focus, VW Golf or Vauxhall Astra) with CO_2 emissions between 97g/km and 111g/km.
- 235 large diesel hatchback or estates (e.g. Vauxhall Insignia or VW Passat) with CO_2 emissions between 109g/km and 139g/km.
- 15 Executive saloons or estates (e.g. Audi A6, BMW 5 Series or Mercedes E-Class) with CO_2 emissions between 114g/km and 125g/km.
- 5 ULEVs (e.g. VW Golf GTE PHEV) with CO_2 emissions of 38g/km.

Results

The chart and table below show the Whole Life Cost (WLC) to the company of funding the car fleet above based on the applicable rules before the Budget (pre-Budget cost), compared to the same fleet acquired today (post-Budget cost).



	Pre-budget	Post-budget
Contract hire	£13,077,617	£13,294,729
Contract purchase	£13,622,536	£13,829,462

The results show that the cost of funding this car fleet, either as a leased or purchased fleet, will increase slightly when moving from the pre-Budget to post-Budget position, with a rise of approximately 1.5%. The main reason for increased cost is the introduction of new rules for VED which will raise costs by 1% to 2% for the majority of new cars registered on 1 April 2017. It is worth noting that for cars with a list price over £40,000 the VED increases will be more noticeable due to the extra cost for cars over this limit. In the fleet above, the cost increase for the executive saloon with a list price over £40,000 was 3.3%, which was almost double the average increase for the other cars in the fleet.

The relatively small cost increase demonstrates the current stability for companies in the rules affecting company car tax legislation. Where the Budget announces incremental changes to taxation rules a number of years in advance these will typically only affect the very end of a vehicle contract and so there will be little noticeable difference. However, it is worth noting that some of the legislative changes announced for future years will likely have a much more pronounced impact. This is because some of the new legislation does not result in incremental change, but rather takes effect overnight and then applies to all new cars acquired for the full duration of their contract. For example, the new OpRA legislation applies to new arrangements starting on, or after, 6 April 2017. Therefore, it remains important for companies and employees to consider future changes to the taxation rules for company cars and the effect they will have in order to minimise future cost increases.

Case study 4: Company Car Tax

Introduction

The cost of CCT is likely to be one of the major factors influencing employees in their decision-making process for choosing a company car. In turn, this will have cost implications for those companies providing cars to their employees. Broadly speaking, the cost of CCT depends on the company car tax rates announced by the Government, along with the taxable list price of the vehicle, its CO_2 emissions and fuel type. The new OpRA legislation has increased the complexity involved with calculating CCT. As a result, it may be more difficult for employees to understand the financial implications of their choices and, in turn this could influence their decisions.

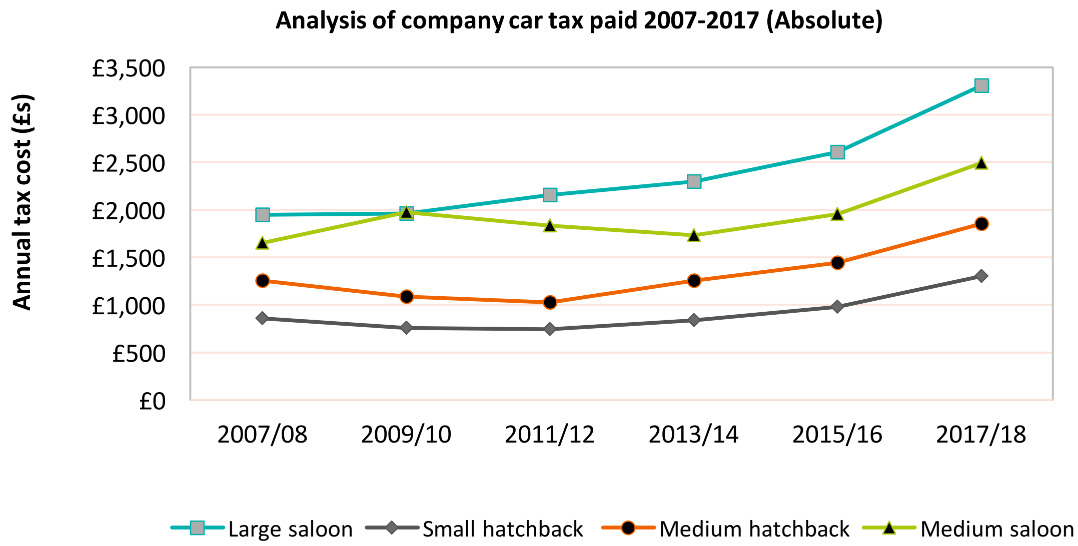
For a number of years the rates of CCT have been increasing, so in each new tax year with the same car an employee would pay more CCT than the year before. However, advances in engine technology have seen significant reductions in CO_2 emissions for new cars meaning they can attract lower rates of CCT. This case study is designed to illustrate the impact of the different factors affecting CCT costs over the last ten years.

Assumptions
In this case study we examine the CCT due on the following four typical diesel engine company cars between 2007 and 2017:

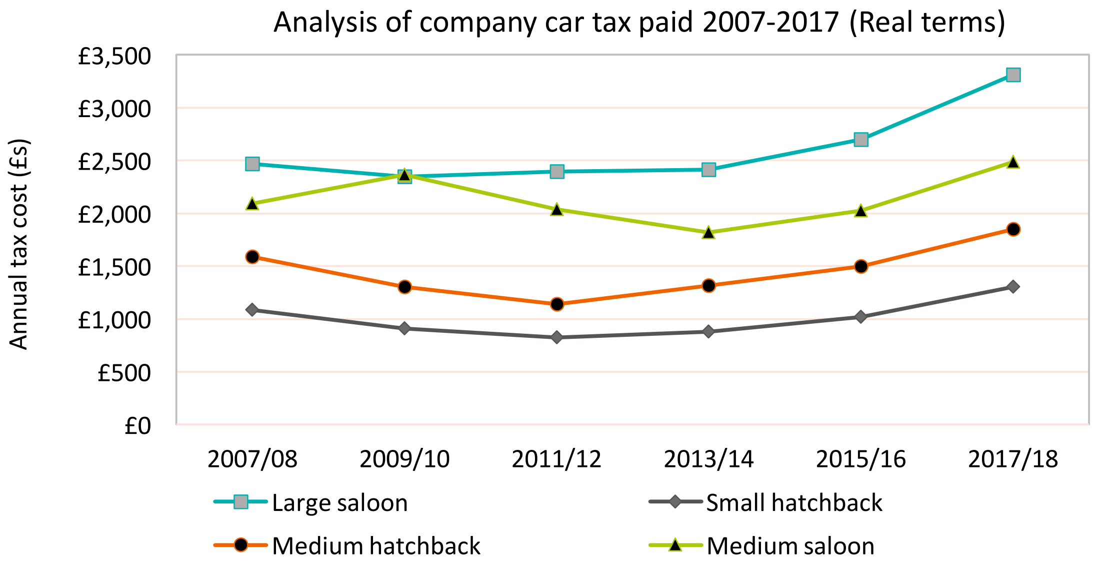
- A small hatchback e.g. Ford Fiesta or Vauxhall Corsa.
- A medium hatchback e.g. VW Golf or BMW 1 Series.
- A medium saloon e.g. Ford Mondeo or Mercedes C-Class
- A large saloon e.g. BMW 5 Series, Audi A6.

The CCT cost was calculated based on an employee with a personal tax rate of 40%. The real world figures shown are adjusted for inflation using the Consumer Prices Index figures published by the Office for National Statistics.

Results
The chart below shows the trend in annual CCT cost at two year intervals between 2007 and 2017 (absolute tax costs shown before adjusting for inflation).



The results shows that, as an absolute value, the amount of CCT due for each car varies throughout the period analysed, with a number of increases and some decreases in the amount of tax due. The varying levels of tax highlight the different impact of annual rises in CCT rates which was then counterbalanced in some years by the introduction of new engine technology with lower CO_2 emissions. In some cases, changes to manufacturer pricing exacerbated the upward or downward trend in tax costs. The overall trend for CCT during the period analysed is a rise in costs.



However, when the figures are adjusted for inflation using the Consumer Prices Index from the Office for National Statistics, the results tell a different story about how CCT levels have changed in the last 10 years. Between 2007/08 and 2013/14, the level of CCT remained broadly neutral, or in some cases it actually dropped slightly. But since 2013/14, the amount of CCT due on all four cars has trended upwards, resulting in a noticeable rise in tax costs for some of the cars analysed.

The analysis shows that although CCT rates have increased in the last 10 years, the advances in engine technology and falling CO_2 emissions of new cars were able to mitigate the financial impact on employees. Since the 2013/14 tax year, the picture has changed, with falling emissions level unable to completely counteract the rising CCT rates and so the adjusted cost of CCT has increased. With CCT rates set to increase at an accelerated pace for the next few years, the ability of new engine technology to deliver further reductions in CO_2 emissions will continue to be a crucial factor determining the cost of CCT.

Taxation Considerations

What's next?

Taxation considerations for Company Fleets

The impact of direct and indirect taxation on company car fleets is a complex one. In the sections that follow we will explain the key mechanics of taxation affecting company cars, along with worked examples.

What is tax relief?

A company is subject to corporation tax on the taxable profits it makes as a result of doing business. In broad terms, taxable profits are calculated as income less expenses, subject to certain tax adjustments. So, if a company incurs a tax deductible cost that reduces its profits it should also reduce the amount of corporation tax it will pay and when this happens we say that the company has obtained "tax relief".

If a business is a sole trader or partnership then it should still receive tax relief when it incurs costs, but because the business is not structured as a "company", the precise nature of the tax relief differs from that for a company. The end result, however, is broadly the same. Also, there are some organisations, such as charities and some public sector bodies, where tax relief is not applicable as they are not subject to tax on their profits, but the rest of the information in this book will still make a handy guide.

Historically, there have been two rates of corporation tax (the small profits rate and the main rate), and the applicable rate depended on the level of a company's profits. However, since April 2015 there has been one rate of corporation tax (i.e. the rate of corporation tax no longer depends on the level of a company's profits).

The current main rate, as of 1 April 2017, is 19%. From 1 April 2020, the main rate is set to be reduced from 19% to 17%.

From 1 April 2017 to 31 March 2018:

	Corporation tax rate
Main Rate	19%

On the face of it, the calculation of tax relief for the cost of providing company cars should be relatively simple. However, the devil is in the detail and there are a couple of added complications for a company to consider which depend on whether it leases or buys its cars, and the CO_2 emissions of cars provided.

How is tax relief calculated for a company that leases its company cars?

If a company leases its cars then the finance element of the lease rentals it pays are a cost which can be offset against profits, typically in the year that they are incurred. However, if the timing of the lease rentals is uneven (for instance, there is a large upfront or final payment) the tax relief will be spread evenly throughout the lease period rather than given when the cost of lease rentals is incurred.

Currently, if the car has CO_2 emissions of 130g/km or less, then the full cost of the finance element of the lease rental will attract tax relief. However, where a car has CO_2 emissions above 130g/km, there is a flat rate reduction of 15% in the value of the lease rentals that can be considered for corporation tax relief purposes. The end result is that leased cars with CO_2 emissions exceeding this threshold attract less corporation tax relief making them more expensive to provide. The CO_2 emissions threshold for the flat rate reduction is set to fall to 110g/km in April 2018.

Leasing rental restriction:

CO_2 emissions *(g/km)*	Allowed rentals	Disallowed rentals
130 or less	100%	0%
Above 130	85%	15%

Let's look at some examples

To help illustrate how this might look in practice, we have two examples that cover cars both below and above the current CO_2 threshold. These show how tax relief would be calculated and the potential impact on the cost to the company of employees choosing cars with different CO_2 emissions.

Example 1: Tax relief for a leased car (CO_2 emissions of 130g/km or less)
A company leases a car using contract hire for a 36-month term with monthly lease rentals element of £400 *(for simplicity, in these examples we will assume the first lease rental is paid in the first month of the company's financial year).*

The CO_2 emissions are 130g/km or less and so there is no lease rental disallowance to consider.

The calculation of tax relief for lease rental costs each year is:

	Yr 1 (FY17)	Yr 2 (FY18)	Yr 3 (FY19)	Overall
Lease rentals for tax relief	£4,800	£4,800	£4,800	£14,400
Corporation tax rate	19%	19%	19%	
Tax relief received	£912	£912	£912	£2,736

Example 2: Tax relief for a leased car (CO_2 emissions above 130g/km)
A company leases a car using contract hire for a 36-month term with monthly lease rentals of £400.

The CO_2 emissions are above 130g/km so there is a 15% lease rental disallowance on the tax relief that can be claimed.

The calculation of tax relief for lease rental costs each year is:

	Yr 1 (FY17)	Yr 2 (FY18)	Yr 3 (FY19)	Overall
Lease rentals for tax relief	£4,800	£4,800	£4,800	£14,400
Corporation tax rate	19%	19%	19%	
Tax relief for lease rentals	£912	£912	£912	£2,736
Less leasing disallowance	(£137)	(£137)	(£137)	(£410)
Tax relief received	£775	£775	£775	£2,326

Observation: Comparing the tax relief received by the company in the two examples shows the car with emissions below 130g/km CO_2 attracts additional tax relief for the company of £410 over the contract term. This means that it would be more expensive, after accounting for corporation tax, to provide the company car in example 2 even though they have the same lease rental.

What other tax relief considerations are there for leased cars?

When examining the tax relief implications of leasing company cars there are some further considerations worth bearing in mind. These include:

Q) What funding methods are considered leases?

A) In this book, where we refer to a lease, we will be talking about contract hire (also known as operating lease) or finance lease funding products. Further details about these can be found in the section on funding options later in this book.

Q) Is tax relief calculated on the VAT-exclusive or inclusive lease rental?

A) A company can claim tax relief on the lease rental charges after the recovery of any applicable VAT.

Q) Should I worry about capital allowances for leased cars?

A) Broadly, a company cannot claim tax relief through capital allowances on leased cars as capital allowances can only be claimed on company cars that are purchased.

However, it is important to be aware that where leasing companies purchase cars to lease to their customers the lease rentals charged may reflect the tax relief the leasing company can claim through capital allowances. Therefore, even if capital allowances do not directly impact the company leasing its cars, there may be some benefit from understanding how capital allowances work.

Q) What is the impact on tax relief if I pay a deposit or a number of lease rentals in advance?

A) Generally, a tax deduction is available for an expense when that expense is included in the company's profit and loss account in its financial statements (under generally accepted accounting principles).

What is generally not permitted is a tax deduction for lease rentals on the basis of when they fall due for payment. This is particularly true for leasing agreements where a large initial payment is made. In such lease agreements, the total lease rentals payable should be spread over the period of the lease (for both accounting and tax purposes).

Q) Can the company own the car at the end of the lease?

A) No. To be treated as a lease there must be no option for the company to purchase the car at the end of the lease term. If a company had such an option, the agreement would change from a lease to a deferred purchase, which would alter the accounting treatment. It is important to note that this does not prevent the individual driver from purchasing the vehicle directly from the lease provider.

Q) How will the reduction of CO_2 thresholds in April 2018 come into effect for existing leased cars?

A) Whilst the Government have yet to announce full details on the CO_2 threshold changes, if they follow the approach taken in prior years the lease rental restriction threshold will apply for new leases commencing on or after 1 April 2018 for corporation tax and 6 April 2018 for businesses subject to income tax.

How is tax relief calculated for a company that purchases its company cars?

When a company purchases a fixed asset, such as tools, machinery or a car, it is not usually possible to deduct the entire expenditure on the asset from the profits straight away on the basis that it represents capital expenditure. Instead, tax relief is calculated for qualifying capital expenditure by way of capital allowances, which effectively spreads the amount of tax relief that can be claimed over a number of years as opposed to the depreciation for accounting purposes, which is generally not deductible for tax purposes.

With company cars, there are special rules dictating the amount of capital allowances that can be offset against profits each tax year. This amount is calculated as a percentage of the car's value, and the specific percentage is known as a Writing Down Allowance (WDA). Capital allowances are calculated on a 'reducing balance' basis. This means that the WDA percentage is applied each year to the remaining balance of unrelieved expenditure. The value of the car for tax purposes after the WDA has been applied each year is known as the Tax Written Down Value (TWDV).

As with leasing, the rules governing the calculation of capital allowances for purchased cars are structured to encourage the use of vehicles with lower CO_2 emissions. The table on the right shows the WDA rates applicable for FY17 based on the car CO_2 emissions. It is important to note that unlike any leasing disallowance, the rules for capital allowances affect the timing of the tax relief a company receives, rather than the total amount of relief a company can claim in all years.

From April 2017

g/km of CO_2	WDA rate %
75 or less	100% (1)
76 - 130	18%
Above 130	8%

(1) *Relief provided for full purchase price in year 1.*

In order to simplify the process of tracking tax relief for cars purchased, all cars that do not receive 100% WDA are put into one of two tax pools (sometimes called an asset pool) based on their CO_2 emissions. The two asset pools used are called the 'main rate pool' where the WDA is 18%, and the 'special rate pool' where the WDA is 8%. If a car is purchased, the cost is added to the relevant pool and then when a car is sold the sale proceeds are deducted from the relevant pool. The appropriate WDA is then applied to the total value of each pool at the end of the company's tax year.

In the 2016 Budget it was announced that the CO_2 emissions threshold for the main rate pool will reduce from 130g/km to 110g/km in April 2018. At the same time, the CO_2 emissions threshold that determines if a vehicle is eligible for 100% WDA will reduce from 75g/km to 50g/km. This is illustrated in the table to the right.

From April 2018

g/km of CO_2	WDA rate %
50 or below	100% (1)
51 - 109	18%
Above 110	8%

(1) *Relief provided for full purchase price in year 1.*

Let's look at some examples

To help illustrate how this might look in practice we have three examples, one for each WDA rate. They show how tax relief would be calculated and the potential impact for the company of employees choosing cars with different CO_2 emissions. The applicable g/km rates are for the tax year 2017/18.

Example 1: Tax relief for a purchased car (CO_2 emissions 75g/km or below)
A company purchases a car for £25,000 outright and keeps it for 36 months, after which it sells the car for £10,000.

The CO_2 emissions of the car are 75g/km or below so it qualifies for 100% first year capital allowances.

The cash flows are as follows:

Year 1
The full purchase price of the car is added to the main pool and 100% of this can be offset against profits to provide tax relief.

Year 2
Full tax relief has already been provided so no further tax relief is allowed.

Year 3
The car is sold and the sale proceeds are added to the main pool after which capital allowances for the year are calculated.

Year 4 onwards
The remaining balance of capital allowances due, which in this case is a claw back (as the capital allowances previously claimed are in excess of the fall in value of the car during the ownership period), will continue to be accounted for over time within the main pool.

Purchase

Disposal

Year	Yr 1 (FY17)	Yr 2 (FY18)	Yr 3 (FY19)	Yr 4 (FY20)	Yr 5 (FY21)
Purchase price	£25,000				
Sale proceeds			(£10,000)		
TWDV	£25,000	£0	(£10,000)	(£8,200)	(£6,724)
WDA rate	100%	0%	18%	18%	18%
Capital allowances	£25,000	£0	(£1,800)	(£1,476)	(£1,210)
Corporation tax rate	19%	19%	19%	17%	17%
Tax relief	£4,750	£0	(£342)	(£251)	(£206)
Cumulative tax relief	£4,750	£4,750	£4,408	£4,157	£3,951

Cumulative tax relief accrued after 75 years[1]	£3,014

[1] *Corporation tax falls to 17% in 2020 and is assumed to remain at 17% thereafter.*

Example 2: Tax relief for a purchased car (CO_2 emissions 76 - 130g/km)
A company purchases a car for £25,000 outright and keeps it for 36 months, after which it sells the car for £10,000.

The CO_2 emissions of the car are between 76g/km and 130g/km attract a WDA rate of 18%.

The cash flows are as follows:

Year 1
The full purchase price of the car is added to the main pool. Capital allowances will be provided at the main rate of 18%.

Year 2
Capital allowances will continue at the main rate of 18%.

Year 3
The car is sold and the sale proceeds are added to the main pool after which capital allowances for the year are calculated.

Year 4 onwards
The remaining balance of capital allowances due (which in this case gives further tax relief) will continue to be accounted for over time within the main pool.

Purchase **Disposal**

Year	Yr 1 (FY17)	Yr 2 (FY18)	Yr 3 (FY19)	Yr 4 (FY20)	Yr 5 (FY21)
Purchase price	£25,000				
Sale proceeds			(£10,000)		
TWDV	£25,000	£20,500	£6,810	£5,584	£4,579
WDA rate	18%	18%	18%	18%	18%
Capital allowances	£4,500	£3,690	£1,226	£1,005	£824
Corporation tax rate	19%	19%	19%	17%	17%
Tax relief	£855	£701	£233	£171	£140
Cumulative tax relief	£855	£1,556	£1,789	£1,960	£2,100

Cumulative tax relief accrued after 75 years[1] £2,738

[1] *Corporation tax falls to 17% in 2020 and is assumed to remain at 17% thereafter.*

Example 3: Tax relief for a purchased car (CO_2 emissions above 130g/km)
A company purchases a car for £25,000 outright and keeps it for 36 months, after which it sells the car for £10,000.

The CO_2 emissions of the car are above 130g/km and attract a WDA rate of 8%.

The cash flows are as follows:

Year 1
The full purchase price of the car is added to the special rate pool. Capital allowances will be provided at the rate of 8%.

Year 2
Capital allowances will continue at the special rate of 8%.

Year 3
The car is sold and the sale proceeds are added to the special rate pool after which capital allowances for the year are calculated.

Year 4 onwards
The remaining balance of capital allowances due (which in this case gives further tax relief) will continue to be accounted for over time within the special rate pool.

Purchase

Disposal

	Yr 1 (FY17)	Yr 2 (FY18)	Yr 3 (FY19)	Yr 4 (FY20)	Yr 5 (FY21)
Purchase price	£25,000				
Sale proceeds			(£10,000)		
TWDV	£25,000	£23,000	£11,160	£10,267	£9,446
WDA rate	8%	8%	8%	8%	8%
Capital allowances	£2,000	£1,840	£893	£821	£756
Corporation tax rate	19%	19%	19%	17%	17%
Tax relief	£380	£350	£170	£140	£128
Cumulative tax relief	£380	£730	£899	£1,039	£1,167

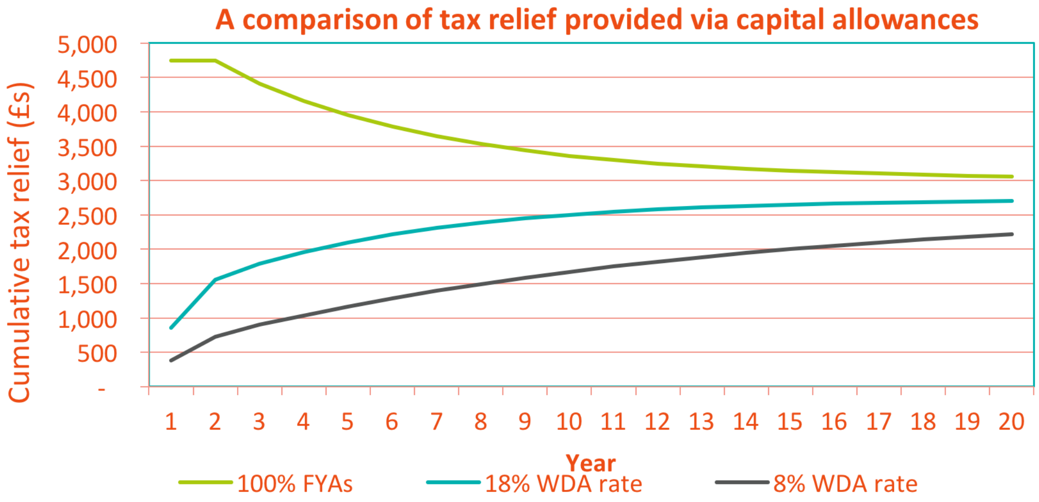
Cumulative tax relief accrued after 75 years(1) £2,644

(1) Corporation tax falls to 17% in 2020 and is assumed to remain at 17% thereafter.

Observation: The tax relief that could be claimed in all three examples shown will be calculated based on the depreciation in the value of the car. If the rate of corporation tax remains static, the amount of tax relief for each of the three cars will ultimately be the same. However, it is important to note that, because of the way in which capital allowances are calculated, the relief will be provided over a much longer period than the retention period of the vehicle, and so the potential impact on cash flow can be very different.

The chart below compares the cumulative tax relief received by the company for the three different rates of WDA and highlights the differences in the timing of tax relief. This can be observed from the lines showing the cumulative relief, which start out at very different levels but after a number of years converge at the net cost of the car.

If the main rate of corporation tax was static at 17% for the three examples above, it would take over 70 years for the amount of tax relief received on a car with emissions above 130g/km to catch up with cars with CO_2 emissions of 130g/km or below. This illustrates the degree to which a company's cash flow can be impacted by employees choosing cars with higher emissions.



In the 2016 Budget it was announced that the CO_2 emissions thresholds affecting capital allowances are set to reduce in April 2018. Broadly, the financial patterns shown above will remain the same after the thresholds change as the three WDA rates will remain unchanged; however unless vehicle emissions are reduced, fewer cars will qualify for the more generous capital allowances regimes.

It also needs to be noted that because the main rate of corporation tax is reducing (by 2 percentage points in FY20), this will impact the overall amount of relief available. In summary, the reduction to the corporation tax rate increases the financial benefit of a company providing cars that receive tax relief more quickly.

What other tax relief considerations are there for purchased cars?

When examining the tax relief implications of purchasing company cars there are some further considerations worth bearing in mind. These include:

Q) What funding methods are considered purchases?

A) Where we refer to a purchase in this book, we will be talking about contract purchase, outright purchase and hire purchase. Further details on these can be found in the section on funding options later in this book.

Q) Does the company really get 100% tax relief in the first year on cars with CO_2 emissions of 75g/km or below?

A) Yes, this is correct. The 100% tax relief in the first year is called first year allowances (FYA) and it is part of a government initiative to encourage companies to purchase cars with lower CO_2 emissions. Currently, cars with CO_2 emissions of 75g/km or less are eligible for FYA. This thresholding is reducing to 50g/km from 1 April 2018.

Q) How will the reduction of FYA and main rate pool thresholds come into effect for existing purchased cars?

A) The reduction in thresholds for the main rate and first year allowance pools (from 130g/km and 75g/km, to 110 g/km and 50g/km respectively) will only apply to expenditure on cars incurred on or after 1 April 2018.

VAT

What's next?

VAT

Understanding the impact of VAT can play an important role in a company's decision on whether it should lease or purchase its company cars.

What is the impact of VAT on providing cars?

Understanding the impact of VAT can play an important role in a company's decision on whether it should lease or purchase its company cars. Following changes to the VAT legislation in 1995, businesses that acquired cars wholly for business use, such as leasing companies, were able to fully recover the VAT element on cars. As a result, the lease rentals charged by leasing companies were reduced and leasing as a funding option became much more popular.

As with tax relief, the impact of VAT for a company providing cars will differ depending on whether the cars are leased or purchased and whether the cars are used exclusively for business purposes.

What does this mean for a business that leases its company cars?
The first step in understanding the VAT treatment for a company that leases its cars is to separate out the cost of funding the car (this will be the lease rentals) and any other expenses related to the car (such maintenance, repairs etc.) as they are treated differently.

Lease rentals
In most circumstances, and subject to its own ability to recover VAT (i.e. full or partial VAT recovery), a company is only able to recover all of the VAT on lease rentals if the car is used entirely for business purposes.

In reality, few leased cars fulfil this criteria as most will have some element of private use and therefore there is a statutory 50% block in the VAT that would otherwise have been recovered. HMRC accepts that the 50% block on VAT reclaims for leased car payments only applies to the 'basic rental' element of the lease rental payments (i.e. not including any add-ons such as repair and maintenance).

Other expenses
The agreement that a company enters into for a leased car will frequently include the additional costs of running a car, such as maintenance, repairs and roadside assistance cover. However, as explained above, HMRC currently accepts that the part of the payment which reflects these additional services is not subject to the same block as lease rentals and is eligible for a full VAT reclaim (again, subject to the company's ability to recover VAT).

To ensure the appropriate balance between lease rental charges and other expenses, HMRC may review any agreements that appear to include a disproportionate element of other expenses. This is to ensure no advantage is made of this concession by inflating the cost of additional services, in order to engineer a larger VAT reclaim for the customer overall (and in effect, lowering the monthly lease rental payments).

Let's look at some examples
To help illustrate how this might look in practice we have prepared a couple of examples. These are for businesses with full and partial VAT recovery and show how the leasing costs are treated for VAT purposes.

Example 1: A company with full VAT recovery
A company leases a car using contract hire for a 36-month term with monthly lease rentals of £480 and maintenance costs of £60 *(both inclusive of VAT)*.

VAT recovery rate	100%
Lease rentals	
Rental (inc. VAT)	£480
Full VAT recovery	(£80)
50% blocked VAT	£40
Rental (after VAT recovery)	£440
Other expenses	
Maint. (inc. VAT)	£60
Full VAT recovery	(£10)
Maint. (after VAT recovery)	£50
Total VAT reclaim	£50
Total cost to business after VAT reclaim	£490

Example 2: A company with partial VAT recovery
A company leases a car using contract hire for a 36-month term with monthly lease rentals of £480 and maintenance costs of £60 *(both inclusive of VAT)*.

VAT recovery rate	5%
Lease rentals	
Rental (inc. VAT)	£480
Full VAT recovery	(£4)
50% blocked VAT	£2
Rental (after VAT recovery)	£478
Other expenses	
Maint. (inc. VAT)	£60
Full VAT recovery	(£0.50)
Maint. (after VAT recovery)	£59.50
Total VAT reclaim	£2.50
Total cost to business after VAT reclaim	£537.50

The monthly cost to the company in example 2 which is only able to reclaim 5% VAT will be £47.50 higher when compared to the company from example 1 which is able to reclaim 100% VAT, even though the same vehicle is provided in both cases.

What does this mean for a business that purchases its company cars?

The VAT treatment of purchased cars is also different for the purchase of the car and the cost of other expenses incurred, such as repairs and maintenance.

Purchase of the car
No element of VAT can be recovered on payments for a car that is used, or is made available to be used, for private use and this broad definition disqualifies most cars from being eligible for a VAT reclaim.

This is a point that a number of companies have contested with HMRC, but with little success. Even in cases where the company has been able to demonstrate that a car was never actually used for private use, the fact that the car was theoretically available for private use has been sufficient to see claims fail at VAT tribunals.

Other expenses
The VAT treatment of other expenses for cars that are purchased follows that of leased cars where a full VAT reclaim can be made on the additional costs of running a car, such as maintenance, repairs and roadside assistance.

LeasePlan

Benefit In Kind

What's next?

Employee Benefit In Kind (BIK) taxation

In this section we look at why a company should care about employee Benefit In Kind (BIK) taxation and show how it can be calculated.

Why should a company care about the company car benefit?

When employees receive a company car they will be taxed on the BIK. In this book we refer to the tax paid on the company car BIK as Company Car Tax (CCT). The calculation of the BIK for an employee typically depends on a number of factors, but as with other legislation we have seen, this is designed to encourage the selection of lower CO_2 emission vehicles. However, with the introduction of the new OpRA legislation, understanding the way in which CCT works has become a more complex issue.

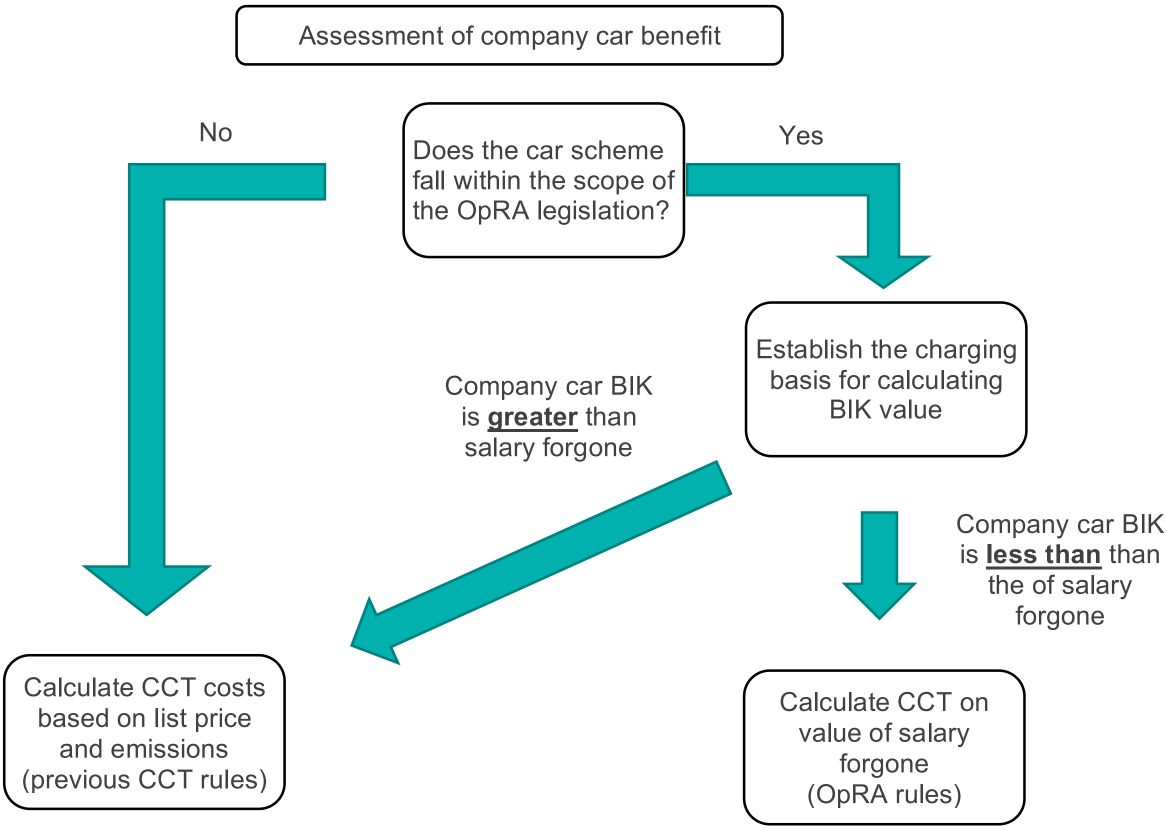
A company may not normally be too concerned with the amount of tax its employees pay in relation to the benefits they receive. However, there are a few points for companies to consider when it comes to CCT. Firstly, a company will pay Class 1A NICs on the value of the taxable benefit the employee receives. Therefore, employees choosing cars with lower CCT costs will typically reduce their employer's NIC liability.

Secondly, in addition to the impact of the OpRA legislation, the future rises in CCT rates that have already been announced will mean that tax costs for most cars will rise in the coming years. The Government has already announced a 2 percentage point rise in the rate of CCT for most cars that will take place in the 2018/19 tax year. This will be followed by a 3 percentage point rise, and a 1 percentage point rise, in the 2019/20 and 2020/21 tax years respectively. As a result, for a typical diesel engine company car with CO_2 emissions of 110g/km, the increase in CCT rates will see the BIK liability rise by 25% over a four year contract.

Finally, the BIK rules can be complex and difficult to understand, leaving employees unsure of the implications of their choices. Helping employees navigate through this can encourage them to choose cars with lower emissions to manage their tax bill. Beyond the financial benefit to the company this can also lead to a more engaged workforce.

How do you calculate the company car benefit?

At a high-level, calculating the CCT due on a company car can appear to be relatively straightforward, although, like choosing a car, it can become more complex when you start to look at all the different options available. The complexity involved with calculating CCT has significantly increased for most car schemes following the introduction of the new OpRA legislation. The following diagram provides a high-level guide to the steps involved with the calculation of CCT from 6 April 2017 onwards.



Calculating company car benefit based on list price and CO_2 emissions

For a car in a scheme that is unaffected by OpRA, or one where the company car BIK is greater than the salary forgone, the calculation of CCT follows the previous CCT rules in place before 6 April 2017. Under these rules, the starting point for calculating a driver's tax charge on their company car is the list price of the vehicle, including the value of any optional extras purchased. This is also sometimes referred to as the "P11D value". For the purposes of the BIK calculation the *actual* price paid for the car is not relevant.

The next step in the calculation is to determine the car's "appropriate percentage". This is a percentage multiplier which is applied to the car's P11D value to calculate the BIK liability. From April 2017, the appropriate percentage can be anything between 9% and 37%, although typically for most current company cars it will be between 18% and 29%. The table below shows the applicable appropriate percentages published by HMRC for the calculation of CCT.

Company Car Tax rates

g/km of CO_2				% of
2017/18	2018/19	2019/20	2020/21	list price [1][2]
-	-	-	0 1-50[3]	2
-		-	1-50[4]	
-	-	-	1-50[5]	8
0 - 50	-	-	-	9
-	-	-	1-50[6]	12
51 - 75	0 - 50	-	-	13
-	-	-	1-50[7]	14
-	-	-	51	15
-	51 - 75	0 - 50	55	16
76 - 94	-	-	60	17
95	-	-	65	18
100	76 - 94	51 - 75	70	19
105	95	-	75	20
110	100	-	80	21
115	105	76 - 94	85	22
120	110	95	90	23
125	115	100	95	24
130	120	105	100	25
135	125	110	105	26
140	130	115	110	27
145	135	120	115	28
150	140	125	120	29
155	145	130	125	30
160	150	135	130	31
165	155	140	135	32
170	160	145	140	33
175	165	150	145	34
180	170	155	150	35
185	175	160	155	36
190	180	165	160	37

(1) *Add to the '% of list price' if the car runs solely on diesel.*
(2) *The Government stated that they will reform the lower CO_2 bands for ULEVs to refocus incentives on the cleanest cars. This was initially announced in the draft Finance Bill 2017 but removed from Finance Act 2017. It is expected to be included in a future Finance Act.*

In the 1-50g/km of CO_2 band, the 'electric range figure' determines the appropriate percentage:

(3) *Car with electric range figure of 130 or more*
(4) *Car with electric range figure of 70-129*
(5) *Car with electric range figure of 40-69*
(6) *Car with electric range figure of 30-39*
(7) *Car with electric range figure of less than 30*

The 'electric range figure' is the number of miles which is the equivalent of the number of kilometres specified in an European Community (EC) certificate of conformity, an EC type-approval certificate or a UK approval certificate on the basis of which a car is registered, as being the maximum distance for which the car can be driven in electric mode without recharging the battery.

Let's look at some examples

To help illustrate how this might look in practice we have four examples for company cars with different CO_2 emissions and fuel types to show the potential employer and employee tax implications.

Example 1: A ULEV company car (CO_2 emissions of 42g/km or from 2020/21 an electric range figure of 75)

P11D	£25,000					
42g/km & petrol-electric hybrid		2017/18	2018/19	2019/20	2020/21	Overall
Appropriate %		9%	13%	16%	5%	10.8%
BIK charge		£2,250	£3,250	£4,000	£1,250	-
At 40%		£900	£1,300	£1,600	£500	£4,300

The average appropriate percentage over the lifetime of the company car would be 10.8% and the employee would pay a total of £4,300 in CCT.

Example 2: A low emission diesel engine company car (CO_2 emissions of 89g/km)

P11D	£25,000					
89g/km & diesel		2017/18	2018/19	2019/20	2020/21	Overall
Appropriate %		20%	22%	25%	25%	23.0%
BIK charge		£5,000	£5,500	£6,250	£6,250	-
At 40%		£2,000	£2,200	£2,500	£2,500	£9,200

The average appropriate percentage over the lifetime of the company car would be 23.0% and the employee would pay a total of £9,200 in CCT.

Example 3: A petrol engine company car (CO_2 emissions of 115g/km)

P11D	£25,000				
115g/km & petrol	2017/18	2018/19	2019/20	2020/21	Overall
Appropriate %	22%	24%	27%	28%	25.3%
BIK charge	£5,500	£6,000	£6,750	£7,000	-
At 40%	£2,200	£2,400	£2,700	£2,800	£10,100

The average appropriate percentage over the lifetime of the company car would be 25.3% and the employee would pay a total of £10,100 in CCT.

Example 4: A diesel engine company car (CO_2 emissions of 115g/km)

		P11D			£25,000
115g/km & diesel	2017/18	2018/19	2019/20	2020/21	Overall
Appropriate %	25%	27%	30%	31%	28.3%
BIK charge	£6,250	£6,750	£7,500	£7,750	-
At 40%	£2,500	£2,700	£3,000	£3,100	£11,300

The average appropriate percentage over the lifetime of the company car would be 28.3% and the employee would pay a total of £11,300 in CCT.

Example 5: A higher emission diesel engine company car (CO_2 emissions of 155g/km)

	£				
P11D	£25,000				
155g/km & diesel	2017/18	2018/19	2019/20	2020/21	Overall
Appropriate %	33%	35%	37%	37%	35.5%
BIK charge	£8,250	£8,750	£9,250	£9,250	-
At 40%	£3,300	£3,500	£3,700	£3,700	£14,200

The average appropriate percentage over the lifetime of the company car would be 35.5% and the employee would pay a total of £14,200 in CCT.

As the examples show, the CO_2 emissions of the car and resulting CCT costs act as a lever to encourage employees to select company cars with low emissions. The driver of a petrol engine car in example 3 would pay £4,100 less in tax over the 4 year retention period, when compared to the driver of the diesel engine car emitting 155g/km in example 5. The difference in the amounts of CCT paid is even more noticeable when considering the ULEV in example 1, where the driver would pay £9,900 less in CCT over the 4 year retention period. In all of the examples shown the list price for the cars is the same and so the different levels of CCT due are purely down to the different fuel types and CO_2 emissions involved.

Observation: The above examples show the financial impact of the increasing cost of CCT for each individual vehicle. Where a fleet of cars is involved, this effect is magnified many times over. It also shows the importance of looking ahead to see what changes in tax rates and legislation have been announced and will come into effect in later years, as this can impact the tax position and overall cost considerably.

This increase in the appropriate percentage is sometimes referred to as the 'ratcheting' effect. Companies and their employees need to be aware of this effect and take it into account when choosing company cars, so as to avoid expensive surprises in the future.

To highlight the impact of the ratcheting effect, we can look at example 3 where the appropriate percentage for a petrol engine car will rise from 22% in the 2017/18 tax year, to 28% in the 2020/21 tax year – this is an increase of 27%. The driver of such a vehicle would therefore pay 27% more income tax on his benefit in 2020/21, than in 2017/18.

A similar ratchet will impact diesel cars, as the government extended the 3 percentage point diesel surcharge into 2020/21.The impact of this can be seen in example 4, where the appropriate percentage for a diesel engine car will rise from 25% in the 2017/18 tax year, to 31% in the 2020/21 tax year – this is an increase of 24%.

Establishing the charging basis for calculating company car BIK

If a car scheme is affected by the new OpRA legislation then the calculation of company car BIK will involve a two-step process to determine the charging basis for the benefit. The two steps involved in the process are:

1. Establish the charging basis for calculating the company car BIK;
2. Calculate the value of the company car BIK

While both steps involve the use of calculations that are broadly based on previous CCT legislation, there are some differences relating to making good payments that need to be considered when calculating CCT. It is important to note that checking to establish the charging basis of company car BIK will have to be performed at least once each tax year if arrangements remain unchanged, and more frequently if any relevant inputs vary mid-year. For example, introducing a revised car scheme policy with changes to cash allowance levels would require a company to recheck how the company car BIK is charged. This process should be relatively simple for cash or car schemes where each tax year can be considered in isolation. However, it is more complex for salary sacrifice because the calculations are typically carried out over a contract term of 24-36 months spanning multiple tax years and during this period the charging basis for company car BIK may change because of increasing CCT rates.

In order to establish the way in which the company car BIK should be calculated it is necessary to calculate and compare the following:

1. The amount of salary forgone; and
2. The Modified Cash Equivalent (MCE) of the company car benefit.

If the:

- Amount of salary forgone is **greater than** the MCE then the company car BIK calculation will be based on the value of the salary forgone.
- Amount of salary forgone is **less than** the MCE then the company car BIK calculation will be based on company car benefit rules.

The amount of salary forgone

In a cash or car type scheme the amount of salary forgone will typically be the value of the cash allowance given up by the employee when they opt for a company car. In a salary sacrifice scheme the value of the salary sacrifice will be the amount of salary forgone. It is important to note that any trade up payments should be ignored when calculating the amount of salary forgone.

The Modified Cash Equivalent

The method of calculating the Modified Cash Equivalent (MCE) is set out in the new legislation and it broadly follows the previous rules for calculating company car BIK. However, the MCE ignores the effect of any private use or capital contributions made. As a result, the MCE value will be higher, and this in turn this increases the likelihood that the car BIK, rather than the cash value forgone, is used as the basis for the BIK charge. It is important to note that the MCE is only used to establish how the company car BIK is calculated and it will not be used in the actual calculation of the company car BIK.

Calculating the value of the company car BIK

Once the charging basis has been established, the second step is to calculate the value of the company car BIK based on the appropriate method. If the calculation is to be based on the amount of salary forgone the BIK calculation will depend on whether the scheme in question is a cash or car type scheme or a salary sacrifice arrangement.

In a cash or car type scheme the value of the salary forgone will include:

- The value of the cash allowance offered.
- Any PUCs or capital contributions made by the employee.
- Any trade down payments received by the employee.

The new legislation sets out how the PUCs and capital contributions should be treated when calculating the amount of salary forgone for the BIK calculation. This broadly follows the way in which these payments were treated under the previous company car benefit rules.

In a salary sacrifice scheme the amount of salary forgone should simply be the gross salary sacrifice amount agreed to by the employee. This is on the basis that trade up or trade down payments are not usually made in salary sacrifice schemes as these are simply treated as a larger or smaller sacrifice amount.

If it is established that the car is the basis for the company car BIK, then the calculation follows the list price and CO_2 emission based rules seen earlier.

How do trade up and trade down payments impact company car BIK?

It is relatively commonplace in car scheme arrangements for companies to structure arrangements so that they offer employees some flexibility to choose a benefits offering that suits them. An example of this is where an employee is allowed to “trade up” by paying more money in exchange for a better car, or “trade down” and receive additional salary in exchange for taking a lower value car. In some circumstances, the tax system has mechanisms in place that take account of this and deliver adjusted income tax and NIC costs.

Trade up payments

Where an employee makes trade up payments and contributes towards the cost of providing a company car these can be structured as PUCs or capital contributions.

PUCs

If an employee makes contributions as a condition of the car being available for private use, the total amount of the contributions can be deducted from the BIK for the tax year in which they were made. Typically, the payments for private use would be made throughout the time the car is available. As a result of a tax case, the Government introduced new legislation to ensure individuals make payments for private use of a company car in the relevant tax year. It is important that the car scheme policy documentation is clear that such contributions are for the private use of the car.

Capital contributions
If an employee contributes towards the capital cost of the car, whether that is towards the cost of the car or towards the cost of optional extras, the total contribution is deducted from the P11D value up to a maximum of £5,000. Typically, the payment of capital contributions would be made at or about the time when the car or accessory was provided.

Trade down payments
Where an employee opts to receive a car below their entitlement they may receive an additional payment in return. The correct treatment of trade down payments is quite simple as the payment is usually processed through payroll and will be subject to income tax and NICs.

However, the issue of dealing with trade down payments was not specifically covered in the new OpRA legislation and so there is an element of uncertainty as to how they affect the step to establish the charging basis for company car BIK. The most likely outcome is that, where a comparison is made between the taxable value of the car selected and the cash allowance given up, this reflects the value the trade down payment made. For example:

- An employee is entitled to receive a company car or a car allowance of £6,000.
- They opt for a car below their entitlement and receive a trade down payment of £1,000.
- The comparison is made between the taxable value of the company car selected and a car allowance of £5,000 (the original £6,000 car allowance, less the £1,000 trade down payment).
- The trade down payment will be subject to income tax and NICs through payroll in the normal way.

Let's look at some examples

To help illustrate how trade up and trade down payments work in practice we have some examples showing how these payments affect company car BIK calculations.

Example 1: PUCs made against a car benefit calculated based on list price and CO_2 emissions
In this example:

- An employee has a company car with a taxable benefit value of £4,800.
- The employee makes PUCs of £600 in a tax year.
- The company car taxable benefit value is reduced to £4,200 (£4,800 - £600).
- The £600 PUCs would result in income tax costs in a year being reduced by:
  - £240 for a higher rate tax payer (£600 x 40%); or
  - £120 for a basic rate tax payer (£600 x 20%).

Example 2: PUCs made against a car benefit calculated based on the value of the salary forgone Repeating example 1, but for an employee in a cash or car type scheme entitled to a £5,500 cash allowance, the result would be:

- An employee has a company car with a taxable benefit value of £4,800.
- The employee makes PUCs of £600 in a tax year.
- The PUCs will be ignored for the purpose of establishing whether the benefit will be based on the company car or the salary forgone.
- Therefore, the initial benefit value before taking account of PUCs will be £5,500.
- The benefit value is reduced by the value of the PUCs to £4,900 (£5,500 - £600).
- The £600 PUCs would result in income tax costs in a year being reduced by:
  - £240 for a higher rate tax payer (£600 x 40%); or
  - £120 for a basic rate tax payer (£600 x 20%).

Example 3: A capital contribution made against a car benefit calculated based on list price and CO_2 emissions

In this example:

- An employee has a company car with a taxable list price of £25,000.
- The employee makes a capital contribution of £2,000 when the car is delivered.
- The value of the capital contribution is deducted from the taxable list price of the car when calculating the taxable benefit (£25,000 - £2,000).
- The reduced list price for tax purposes will be £23,000 and this will apply for every tax year the car is retained by the employee.
- Based on the fuel type and CO_2 emissions the appropriate percentage for company car tax in 2017/18 is 24%.
- The taxable benefit for the company car is £5,520 (£23,000 x 24%).
- The £2,000 capital contribution would result in income tax costs in a year being reduced by:
    - £192 for a higher rate tax payer; or
    - £96 for a basic rate tax payer.

Example 4: PUCs made against a car benefit calculated based on the value of the salary forgone Repeating example 4, but for an employee in a cash or car type scheme entitled to a £6,500 cash allowance the result would be:

- An employee has a company car with a taxable list price of £25,000.
- The employee is also entitled to a cash allowance of £6,500
- The employee makes a capital contribution of £2,000 when the car is delivered.
- The capital contribution will be ignored for the purpose of establishing whether the benefit will be based on the company car or the salary forgone.
- The taxable benefit of the salary forgone (£6,500) is greater than the value of company car (£6,000) and so the tax charge will be based on the value of the salary forgone.
- The value of the capital contribution is adjusted to work with the value of the salary forgone which is done by multiplying it by the appropriate percentage for the company car (24% x £2,000 = £480).
- The taxable benefit of the salary forgone is reduced by the value of the adjusted capital contribution and is £6,020 (£6,500 - £480).
- The £2,000 capital contribution would result in income tax costs in a year being reduced by:
    - £192 for a higher rate tax payer; or
    - £96 for a basic rate tax payer.

What other considerations are there for the company car benefit?

When examining the issue of company car benefit charges there are further considerations worth bearing in mind. These include:

Q) What is the impact of an employee adding optional extras to their company car?

A) If an employee chooses to add optional extras to the car before registration, the P11D value of the car is increased by the list price of the optional extras. It is important to note that even if the manufacturer describes an optional extra as 'free' (for example a free metallic paint or satellite navigation system), the P11D value should still be increased by the list price of the accessory.

If an employee adds optional extras to the car after the car has been registered and the total cost of the optional extras is more than £100, then the cost will be added to the P11D value. This will occur from the beginning of the tax year in which the optional extras were added and the cost of the optional extras will also be taken into account when calculating the MCE under OpRA legislation. If the total cost of the optional extras does not exceed £100 then that cost will be ignored.

Q) How will an employee know how much CCT they are paying?

A) The BIK amount, calculated as explained earlier, is usually reported on an employee's annual Form P11D. This form reports taxable benefits received by an employee during the tax year.

Q) How is the employee's CCT collected?

A) Typically, the CCT is collected via an adjustment to the employee's PAYE notice of coding. The impact of this is that the employee effectively funds the CCT that is payable to HMRC out of their monthly pay.

Q) Does the 3 percentage point diesel surcharge apply to diesel-electric hybrids?

A) HMRC has previously confirmed that diesel-electric hybrid cars would not be subject to the 3 percentage point diesel surcharge for CCT. The 3 percentage point diesel surcharge has been extended for all diesel company cars until April 2021.

Q) What if the company car is off the road for some reason?

A) If a company car is unavailable to the employee for a continuous period of 30 days or more, the benefit charge is reduced by the proportion of the year for which the car is unavailable. This only applies to the car not being available to the employee. It is not sufficient for the employee to be physically unable to drive the car.

If a company car is unavailable for less than 30 consecutive days and a replacement car is made available, no BIK arises on the replacement car provided that it is of similar quality to the car that it is replacing. However a BIK charge will continue to apply based on the original company car throughout the period.

Fuel

What's next?

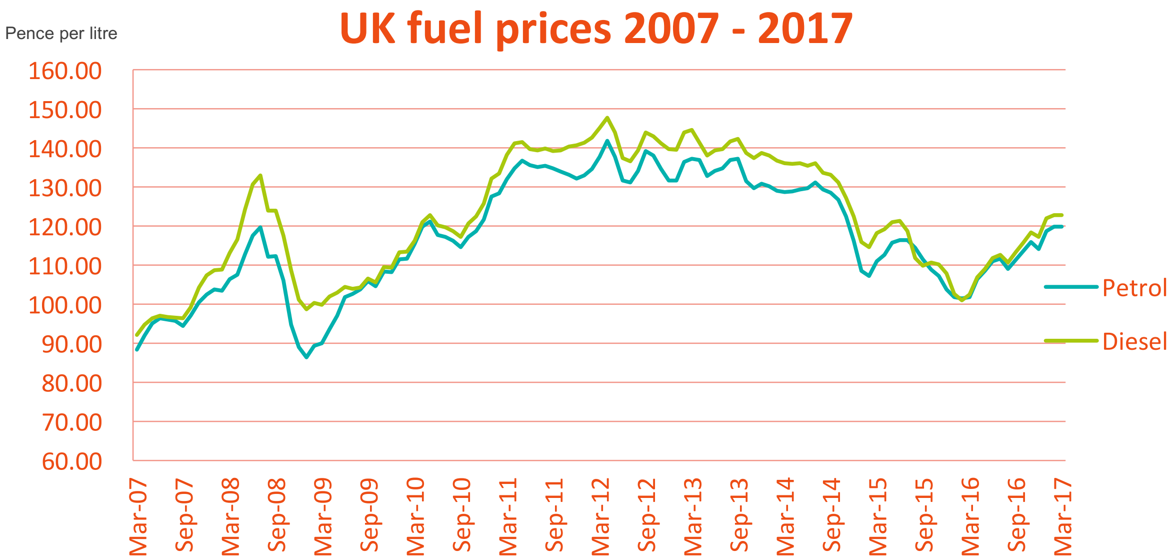
Fuel

Business mileage results in fuel costs which need to be accounted for. Employers need to take care to ensure they understand the costs and benefits of different methods of fuel reimbursement.

Is the cost of business fuel important?

When employees undertake business mileage on behalf of their company (for example visiting customers) they will generally be entitled to receive reimbursement from the company linked to the cost of the fuel they have used. The issue of business mileage reimbursement has become increasingly important in recent years due to the increased volatility of fuel prices and their impact on businesses.

In the last 10 years, the price of petrol and diesel has changed significantly as demonstrated by the chart below which shows the average national price of petrol and diesel since 2007. The earlier trend of rising prices between 2007 and the peak in 2012, has since been reversed to some extent. So after reaching a high of £1.40 p/l for petrol and £1.47 p/l for diesel, the prices fell back with the price of petrol on some supermarket forecourts dipping below £1 for the first time in 6 years. However, since February 2016, the fuel prices have begun to rise once more, leading to increased costs for businesses and their employees.



There have been challenges for companies stemming from the rules that govern the level of reimbursement they can pay without incurring a tax liability. This is because reimbursement rates were not always able to keep pace with the rate at which fuel prices were changing. As a result, some employees felt that the reimbursement they received did not actually cover the cost of the fuel they used for business mileage. This became such an issue that changes were made by HMRC to better deal with the reality of rapidly fluctuating fuel prices.

How can a company reimburse employees for the cost of fuel used?

If an employee uses their own funds to pay for fuel used on business journeys there are two principal methods for calculating the amount of reimbursement the employee receives. The method chosen can have an impact on costs, cash flow and the level of administration required for both the company and its employees.

Advisory Fuel Rates
Many companies use Advisory Fuel Rates (AFRs) to reimburse employees using their company cars for business mileage as it can be simple to implement and administer. With AFRs, the employee reclaims the cost of business fuel based on an allowed rate as published by HMRC. The reimbursement rates a company can pay without income tax being due are published by HMRC periodically and they are intended to reflect actual average fuel costs at the time. The rates only apply where employers reimburse employees for business travel in their company cars or require employees to repay the cost of fuel used for private travel.
If the reimbursement rate paid per mile of business travel is no higher than the AFRs, HMRC will accept that there is no taxable profit for the employee on the payment and therefore no additional tax liability on top of the reimbursement paid. Using the AFRs (or rates below the AFR) can therefore reduce administration for the company.

Advisory Fuel Rates from 1 June 2017		
Engine size (cc)	Petrol	LPG
1,400cc or less	11p	7p
1,401cc or 2,000cc	14p	9p
Over 2,000cc	22p	14p
Engine size	Diesel	
1,600cc or less	9p	
1,601cc or 2,000cc	11p	
Over 2,000cc	13p	

HMRC publishes updated AFRs every 3 months, but this was previously every 6 months. The change followed a period of rapid fluctuation in fuel prices and the rates published quickly became out of date and did not reflect the cost of fuel, leading many employees to argue that they were not adequately reimbursed for the cost of business fuel.

Currently there is no separate advisory rate published dealing with reimbursement for employees with electric-only, or plug-in electric hybrid vehicles, where the cost of undertaking business mileage may be different. As these vehicles become more popular, businesses may look to HMRC to provide further guidance to ensure that payments intended to cover reimbursement of actual costs only do not inadvertently give rise to tax liabilities.

Actual cost of fuel
An alternative method of reimbursing employees who undertake business journeys in a company car is to reimburse for the actual cost of fuel based on the miles driven and the fuel consumption of the car. If a company can demonstrate that the reimbursement reflects the cost of fuel used and does not provide any profit to employees then the reimbursement may be higher than the advisory rates without triggering a tax liability. The level of administration involved with this approach is greater than simply paying a set rate per mile rate for each mile driven, as more information is required and the onus is on the company to demonstrate to HMRC that there is no profit to the employee within the reimbursement paid.

What happens if employees have a fuel card to pay for fuel they use?

Another mechanism used by companies to reimburse business mileage is the use of a fuel card. In this situation fuel is paid for by means of a fuel card where the employee charges the cost of any fuel purchased to the card and the bill for the fuel is then paid by the company. The employee will then have to submit records to allow the company to distinguish between the fuel used for business purposes and that used for private mileage. To avoid a tax liability for the private fuel used the employee must reimburse their employer the full cost of this fuel.

There are a number of reasons for using fuel cards, such as the bulk buying power providing a discount on the fuel purchased and the ability to reimburse the actual cost of fuel. However, there is a certain level of administration that is necessary to demonstrate that no private fuel has been paid for by the company. If this cannot be demonstrated then a car fuel benefit charge is likely to apply and this can have significant cost implications for both the company and the employee.

What happens if a company provides private fuel?

Typically, if a company provides private fuel (called car fuel benefit) the fuel is paid for by means of a fuel card, but unlike above there is no requirement for the employee to keep any business mileage records, or to reimburse the private element of fuel used. The cost to the company of providing private fuel in this way will include the cost of fuel purchased, VAT implications and an employer's NIC liability in respect of the car fuel benefit provided to the employee.

From the employee's perspective this might seem to be an attractive benefit as they do not have to pay for their private fuel or keep any mileage records, while their total fuel bill is paid by the company. Where employees are provided with a company car, tax on the car fuel benefit is calculated based on a number of factors including the CO_2 emissions of the car, the type of fuel used and a car fuel benefit charge multiplier set by the Government. It is important for employees to be aware that the calculation of the BIK is a fixed charge that does not take account of the value of any private fuel actually used. In many scenarios the employee may be paying more in income tax to receive the car fuel benefit than the value of the private fuel they use.

Let's look at some examples

To help illustrate the implications of providing car fuel benefit, we have two examples for the 2017/18 tax year showing the cost to the company and the tax implications for the employee where car fuel benefit is provided. Please note, the examples exclude the impact of any fuel purchased for business use.

Example 1: A higher rate employee travelling 5,000 private miles each year
The employee receives private fuel and drives a typical 4-door diesel engine company car with CO_2 emissions of 125g/km and published fuel consumption of 65MPG (adjusted downwards by 15% for real world driving conditions). The assumed cost of fuel for this example is £1.22 p/l.

Company perspective	
The cost to the company of providing private fuel benefit is:	
Cost of private fuel purchased	£502
VAT recovery on fuel	(£84)
VAT fuel scale charge	£140
Employer's NI on fuel benefit	£842
Total cost (2016/17)	£1,401

Employee perspective	
The tax cost for the employee as a result of receiving private fuel benefit is:	
Private fuel scale charge	£22,600
Appropriate percentage	27%
Taxable benefit	£6,102
Tax paid (at 40%)	£2,441

Observation: The employee would have paid £2,441 in income tax to receive a car fuel benefit where the value of the fuel provided by the employer would have been £502. Therefore, the employee would have saved £1,939 (net) if they had personally purchased the private fuel. The cost to the company of providing the car fuel benefit, which would have left the employee £1,939 out of pocket, would have been £1,401.

Example 2: A higher rate employee travelling 15,000 private miles each year
The employee receives private fuel and drives a typical 4-door diesel engine company car with CO_2 emissions of 125g/km and a fuel consumption of 65MPG (adjusted downwards by 15% for real world driving conditions). The assumed cost of fuel for this example is £1.22 p/l.

Company perspective	
The cost to the company of providing private fuel benefit is:	
Cost of private fuel purchased	£1,506
VAT recovery on fuel	(£251)
VAT fuel scale charge	£140
Employer's NI on fuel benefit	£842
Total cost (2016/17)	£2,237

Employee perspective	
The tax cost for the employee as a result of receiving private fuel benefit is:	
Private fuel scale charge	£22,600
Appropriate percentage	27%
Taxable benefit	£6,102
Tax paid (at 40%)	£2,441

Observation: The employee would have paid £2,441 in income tax to receive a car fuel benefit where the value of the fuel provided by the employer would have been £1,506. Therefore, the employee would have saved £935 (net) if they had personally purchased the private fuel. The cost to the company of providing the car fuel benefit, which would have left the employee £935 out of pocket, would have been £2,237.

The car fuel benefit charge multiplier has been the target of repeated increases in recent years, with the multiplier increasing by 12% over the last 5 years and now set at £22,600 for the 2017/18 tax year. Proposals so far announced suggest that the multiplier is likely to increase in line with the RPI in future.

What other considerations are there for fuel reimbursement?

When examining the issue of reimbursing for fuel there are further considerations worth bearing in mind. These include:

Q) Can a business recover VAT on the cost of business fuel purchased?

A) If a company pays business mileage reimbursement based on a pence-per-mile rate, such as HMRC's Advisory Fuel Rates, then they can reclaim VAT on the mileage rate paid. It should be noted that if the pence-per-mile reimbursement rate paid is above HMRC's AFRs, the VAT reclaim is usually limited to the amount based on the AFR.

If a company reimburses the actual cost of business fuel used then the VAT reclaim is based on the cost of the business fuel purchased.

Q) Can a business recover VAT on the cost of private fuel purchased?

A) It would not normally be possible to reclaim any of the VAT for private fuel used. However, HMRC recognises that for many companies, where a car is used for business and private motoring, the record-keeping process to keep the two sets of mileage separate would be cumbersome.

HMRC therefore allows the use of what is known as the VAT fuel scale charge. The impact of the VAT fuel scale charge is that it effectively gives rise to a VAT cost to the company. This is because the company (as stated above) is also recovering VAT on the cost of all fuel purchased, which includes fuel for private mileage where VAT cannot usually be recovered. The VAT fuel scale charge is based on the CO_2 emissions of the car. The higher the emissions, the greater the VAT fuel scale charge.

Q) What information do employees need to submit when recording business mileage journeys?

A) Generally, employees will need to submit a fuel VAT receipt and document the business miles travelled. These items should be supplemented by other supporting evidence, such as the date, the reason for the journey or the postcode to postcode information. A company can keep any range of information, if they feel it will enhance the accuracy of their records. Ultimately, the company is required to demonstrate to HMRC, with supporting evidence, the extent of business mileage undertaken by employees.

Q) Can a company reimburse for business mileage below HMRC's Advisory Fuel Rates?

A) Yes. HMRC's Advisory Fuel Rates are not binding and they are intended to reflect average fuel costs. A company may reimburse fuel costs at less than these rates if they feel that this more appropriately reflects the actual fuel costs of their fleet. For example, their fleet may be comprised of fuel efficient cars, therefore requiring less fuel. Clearly, the rationale of any such decision would need to be carefully communicated to employees.

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Vehicle Excise Duty

What's next?

Vehicle Excise Duty

Vehicle Excise Duty (VED), which is also referred to as road fund licence or car tax, is a tax that is paid for most vehicles which are used or kept on public roads in the UK.

Is the cost of Vehicle Excise Duty important?

Depending on how a car is provided, the cost of VED may be incurred by a fleet provider and then passed on to its customers in a finance or maintenance charge, or it might be a cost incurred directly by a business. Either way, a business providing cars to its employees should be aware of the rules governing VED, especially because the way in which VED is calculated for new cars registered on or after 1 April 2017 has significantly changed.

Before 1 April 2017 the level of VED due depended on when the vehicle was registered, its CO_2 emissions and fuel type. The table below shows the previous VED rates due for petrol and diesel engine cars. It is important to note that there is a first year rate for VED when a car is first registered, and a standard rate for subsequent years.

VED rates from 1 April 2016 (12-month rate for petrol and diesel cars shown)			
Band	CO_2 emission (g/km)	First year rate(1)	Standard rate(1)
A	Up to 100	£0	£0
B	101-110	£0	£20
C	111-120	£0	£30
D	121-130	£0	£110
E	131-140	£130	£130
F	141-150	£145	£145
G	151-165	£185	£185
H	166-175	£300	£210
I	176-185	£355	£230
J	186-200	£500	£270
K	201-225	£650	£295
L	226-255	£885	£500
M	Over 255	£1,120	£515

(1) Alternative fuel vehicles receive £10 discounts

On 1 April 2017 the Government introduced a new system of VED for cars registered on, or after, that date. The transition to the new system for VED will work on a grandfathered basis, with the old rules remaining in place for vehicles registered on or before 31 March 2017, and the new rules applying for cars registered after this date.

Under the new system, the first year rate remains linked to the CO_2 emissions of the vehicle, but with different thresholds and increased rates. Under the new rules, the standard rate of VED for subsequent years will no longer be linked to CO_2 emissions and will be a flat rate of £140. Except for zero-emission vehicles, which face a £0 rate in their first year and all subsequent years. In addition, a new rule was introduced for cars with a list price exceeding £40,000 where there is a £310 a year supplement to the standard rate for the first 5 years in which the standard rate is paid. The following table shows the thresholds and rates due apply from 1 April 2017.

VED rates from 1 April 2017 (12-month rate for petrol and diesel cars shown)		
CO_2 emission (g/km)	First year rate	Standard rate
0	£0	£0
1-50	£10	£140
51-75	£25	
76-90	£100	
91-100	£120	
101-110	£140	
110-130	£160	
131-150	£200	
151-170	£500	
171-190	£800	
191-225	£1,200	
226-255	£1,700	
Over 255	£2,000	

Let's look at some examples

To help illustrate the potential impact of changes to the VED rules, we have some examples showing the cost of VED for over a 48-month retention period paying the first year rate, follow by 3 years at the standard rate.

Example 1: A low emission petrol or diesel engine car
A car with CO_2 emissions of 90g/km costing under £40,000

	Pre April 2017	Post April 2017
First year rate	£0	£100
Standard year rate	£0	£140
VED cost (4 years)	£0	£520

The example shows that the VED cost associated with a 90g/km car will increase significantly as a result of the new rules, the increased cost being £520.

Example 2: A medium emission petrol or diesel engine car
A car with CO_2 emissions of 130g/km costing under £40,000

	Pre April 2017	Post April 2017
First year rate	£0	£160
Standard year rate	£110	£140
VED cost (4 years)	£330	£580

The example shows the VED cost associated with a 130g/km car will increase as a result of the new rules by £250 (76%).

Example 3: A medium emission petrol or diesel engine car
A car with CO_2 emissions of 130g/km costing over £40,000

	Pre April 2017	Post April 2017
First year rate	£0	£160
Standard year rate	£110	£140
Over £40,000 supplement	£0	£310
VED cost (4 years)	£330	£1,510

The example shows the VED cost associated with a 130g/km £40,000 car will increase significantly as a result of the new rules, the increased cost being £1,180 (358%).

Example 4: A high emission petrol or diesel engine car
A car with CO_2 emissions of 240g/km costing under £40,000

	Pre April 2017	Post April 2017
First year rate	£885	£1,700
Standard year rate	£500	£140
VED cost (4 years)	£2,385	£2,120

The example shows the VED cost associated with this car will actually fall as a result of the new rules, reducing by £265 (-11%).

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Funding

What's next?

Funding

When a company is looking to provide cars to its employees there are a number of different funding options it can consider – within this section we explore all the options.

What options are there for a company providing cars to its employees?

When a company is looking to provide cars to its employees there are a number of different funding options it can consider and the choice of funding route can have a significant impact on the cost as well as wider issues like administration and exposure to residual value risk. It is important for a company to look at all of these when choosing a funding option for its company car fleet.

Blended Solutions
It is often the case that a 'blend' of the following funding options can deliver the optimal cost solution for a company. However, operating a blended policy can give additional administrative complexity which often drives companies to choose a single financing method for all the cars in their fleet.

Contract Hire
Contract hire is a lease funding option that is structured so the company simply hires the car for a predetermined period and mileage at a fixed monthly rental. The ownership of the car, and all associated risks, rewards and responsibilities are retained by the leasing provider. The lease rentals are fixed by the leasing provider at the outset of the agreement and usually take into account all costs associated with the car with the exception of maintenance costs, which can be included in an optional maintenance agreement if required.

The company will pay the agreed lease rental charges and maintenance costs if they are included and then, at the end of the agreed term, the company will hand the car back and settle any end of contract charges due based on the mileage and condition of the car.

There is no option for the company to purchase the vehicle at the end of the lease period and it must be handed back to the lease provider, although some leasing providers may, under a discretionary arrangement, allow an employee to purchase the car directly from them as a sale to a private individual.

The benefits of contract hire are:

- A fixed cost making budgeting more simple
- A small initial cost
- No exposure to residual value risk
- VAT recovery on the lease rentals (subject to 50% block)
- VAT is payable on each lease rental (as opposed to upfront)
- Corporation tax relief available against the lease rental charges
- Eliminates most of the stresses and financial risks of vehicle ownership
- Reduced car fleet administration

The potential downsides to contract hire are:

- The company will be tied into a fixed contract
- No ability to profit directly from residual values (however some fleet providers offer profit-sharing arrangements which can share an element of any profit made on residual values)
- It will be necessary to forecast the expected term and mileage for the car at the outset of the contract
- There is no option for the company to purchase the vehicle

Finance lease
Finance lease is a lease funding option that allows the company to lease a vehicle for a fixed monthly fee. The structure of the arrangement also means that it transfers substantially all the risks and rewards of ownership of the vehicle to the company.

There are two main types of finance lease product that are offered, usually selected depending on the cash flow needs of the company, and these are known as a "fully amortised finance lease", or a "finance lease with a balloon payment".

Finance lease (fully amortised)
The lease rentals are based on the full cost of the car spread over the term of the contract and take no account of any anticipated residual value for the car. At the end of the agreement the car must be sold to a third party and the company will receive an element of the sale proceeds as agreed with the leasing provider at the outset.

It is also possible with a fully amortised finance lease to take up the option of a secondary rental agreement for continued use of the car if this is required by the company. Generally, the capital cost and interest has been covered within the primary period and then a nominal "peppercorn rental" is charged for the secondary period which will be much less than the previous payments.

Finance lease (with balloon)
The lease rentals are based on part of the cost of the car, with a balance (the balloon) being offset towards the end of the agreement, usually to reduce the lease rentals paid. At the end of the agreement the car must be sold to a third party and sale proceeds that are in excess of the balloon payment can be retained by the company. If the sale proceeds fall short of the balloon payment the company will be responsible for any shortfall.

The benefits of acquiring a car under a finance lease are:

- The option to choose a fully amortised or balloon agreement to suit the cash flow needs of the company
- A small initial cost
- Usually, provided acquisition of title is optional rather than obligatory, VAT should be payable on each lease rental
- VAT recovery on the lease rentals (subject to 50% block)
- Corporation tax relief available against the lease rental charges

The potential downsides to a finance lease are:
- The company will be tied into a fixed contract
- Exposure to residual value risk for the company

Contract purchase
Contract purchase is a deferred purchase funding option that is structured so the company makes fixed monthly payments for a predetermined period and mileage and at the end of the agreement it has the option to purchase the car or hand it back to the leasing provider. The ownership of the car and some of the associated risks, rewards and responsibilities are retained by the leasing provider until the final balloon payment is made.

The monthly payments are fixed by the leasing provider at the outset of the agreement and usually take into account all costs associated with the car and the forecast balloon payment. As with contract hire, it is possible to include an optional maintenance agreement if required.

The company will pay the contracted payments and then at the end of the agreed term the company will have the option of meeting the balloon payment and owning the car or selling it back to the leasing provider at the price agreed at the outset. If the latter option is chosen there may be end of contract charges due based on the mileage and condition of the car.

The benefits of contract purchase are:

- A fixed-cost method of financing a vehicle purchase making budgeting more simple
- A small initial cost
- No exposure to residual value risk (if the car is sold back to the leasing provider)
- Potential residual value profit if the residual value is greater than the balloon payment due
- Tax relief provided via capital allowances
- Eliminates most of the stresses and financial risks of vehicle ownership
- Reduced car fleet administration

The potential downsides to contract purchase are:

- Upfront VAT cost, as supply of goods, not services
- VAT is ordinarily fully blocked
- It will be necessary to forecast the expected term and mileage for the car at the outset of the contract

Hire purchase

Hire purchase is a deferred purchase funding option that is structured so the company makes fixed monthly payments for a predetermined period and mileage. At the end of the agreement it has typically paid the full cost of the car with interest and ownership of the car transfers to the company. The ownership of the car is retained by the leasing provider until the final payment is made, but the associated risks, rewards and responsibilities rest with the company.

The company will typically pay a deposit and then the balance of the cost of the car and any interest charges are spread evenly over an agreed term. As with other funding options, it is possible to include an optional maintenance agreement if required.

The benefits of hire purchase are:

- Greater flexibility within the agreement
- No end of contract charges
- Potential residual value profit (compared to funding option with fixed residual value/balloon)

The potential downsides to hire purchase are:

- Upfront VAT cost, as supply of goods, not services
- VAT is ordinarily fully blocked
- Exposure to residual value risk
- Uncertain costs making budgeting more complex
- Management of the vehicles (purchase, disposal and maintenance) can be time-consuming

Outright purchase

An outright purchase describes the straightforward situation where the company directly buys the car. The purchase is usually funded either through borrowing or from the company's own cash resources. The ownership of the car and all of the associated risks, rewards and responsibilities rest with the company.

An outright purchase involves a large upfront payment when the company purchases the car and when it is sold the company will receive all of the proceeds. A company can request fleet management services to support ownership of a car in areas like servicing, roadside assistance and vehicle sale from a fleet provider if required.

The benefits of outright purchase are:

- The flexibility provided by full ownership of the car and no fixed contract
- No end of contract charges

The potential downsides to outright purchase are:

- Upfront VAT cost, as supply of goods, not services
- VAT is ordinarily fully blocked
- Exposure to residual value risk
- Uncertain costs making budgeting more complex
- Cash flow implication of the large upfront purchase cost
- Management of the vehicles (purchase, disposal and maintenance) can be time-consuming

How do the funding options compare to each other?

The table below provides a simple way of comparing some of the key characteristics of the funding method explained above.

	Contract Hire	Finance Lease (fully amortised)	Finance Lease (with balloon)	Contract Purchase	Hire Purchase	Outright Purchase
What is the upfront payment/deposit?	Typically 3 months advance rentals (c.8% of car cost)	Typically 10%-15% of car cost	Typically 10%-15% of car cost	Typically 3 months advance payments (c.8% of car cost)	Typically 10%-15% of car cost	100% of car cost
Who owns the car?	The leasing provider	The leasing provider until the final payment is made	The leasing provider until the final payment is made	The leasing provider until the final payment is made	The leasing provider until the final payment is made	The company
Typically, who meets maintenance costs?	Leasing provider (assuming optional maintenance agreement is taken)	The company	The company	Leasing provider (assuming optional maintenance agreement is taken)	The company	The company
Who retains the residual value risk?	The leasing provider	The company	The company	The leasing provider	The company	The company
Typically, who is responsible for administration of the car? E.g. Arranging road fund licence and disposal	The leasing provider	The company	The company	The leasing provider	The company	The company
Does the company own the car at the end of the contract?	No, it is returned to the leasing provider	No, it is sold to a third party	No, it is sold to a third party	Yes, subject to making the final payment	Yes, subject to making the final payment	Yes
Is the car treated as on or off balance sheet?	Off balance sheet (1)	On balance sheet	On balance sheet	On balance sheet	On balance sheet	On balance sheet
How does the company claim tax relief for car costs?	Monthly rental can be offset against profits for tax relief	Monthly rental can be offset against profits for tax relief	Monthly rental can be offset against profits for tax relief	Tax relief is provided via capital allowances	Tax relief is provided via capital allowances	Tax relief is provided via capital allowances
Can the company recover VAT on the rentals/payments made? (2)	Yes, subject to a 50% restriction	Yes, subject to a 50% restriction	Yes, subject to a 50% restriction	No	No	No
Can the company recover VAT on an optional maintenance agreement?	Yes, 100% of VAT can be recovered	Yes, 100% of VAT can be recovered	Yes, 100% of VAT can be recovered	Yes, 100% of VAT can be recovered	Yes, 100% of VAT can be recovered	Yes, 100% of VAT can be recovered

[(1)] The balance sheet treatment of contract hire is set to change as a result of reforms to lease accounting. Please see the following lease accounting section for further detail.
[(2)]Assumes that the car is made available for private use.

How are the different funding options accounted for?

The funding option chosen will ultimately determine the accounting treatment and this can be a significant part of the decision-making process for some companies, particularly for those with large company car fleets. Leasing provides the benefit of having a set monthly cost as well as being more flexible and avoiding working capital becoming tied up compared to an outright purchase. The decision as to whether to opt for contract hire or a finance lease or hire purchase arrangement currently makes a significant difference as to how the arrangement is treated within company accounts.

Contract hire
Under a contract hire agreement, the car (an asset) is leased for a defined period and returned to the leasing provider (the legal owner) at the end of the agreed lease term. The asset is not capitalised on the balance sheet because from an accounting perspective the risks and rewards of ownership (typically the residual value risk) remain with the leasing provider.

Rental payments are typically charged to the profit and loss account on a straight line basis over the lease term.

Finance lease
Under finance lease contracts, the car is treated as if it has been purchased outright and initially capitalised on the balance sheet at cost. It is then subject to an annual depreciation charge based on the estimated useful economic life and estimated residual value.

The lessee recognises an obligation to pay the future rentals on the balance sheet and the rentals payable are allocated between the finance charge and the capital amount (which equates to the fair value of the asset).

The total finance charge is allocated to accounting periods during the primary lease term on a constant yield basis and recorded as an expense in the profit and loss account.

Contract purchase
This has the same accounting treatment as finance lease.

Hire purchase
These typically have the same accounting treatment as finance lease, although it will depend on the option to buy at the end of the contract and whether it is reasonably certain at the outset that the vehicle will be purchased.

Outright purchase
The cost of the car is capitalised on the balance sheet and an annual depreciation charge based on the estimated useful economic life of the car and the estimated residual value is shown in the profit and loss account. The car is recognised on the balance sheet at cost less accumulated depreciation.

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Lease Accounting

What's next?

Lease Accounting (IFRS 16)

The International Accounting Standards Board (IASB) issued IFRS 16 in January 2016. The new Standard is expected to take effect for annual reporting periods beginning on or after 1 January 2019.

How will lease accounting be affected by the current proposals for the reform of lease accounting?

Lease Accounting Update

The IASB issued IFRS 16 in January 2016. The new Standard will replace the current leasing standard IAS 17 and will apply to annual reporting periods beginning on or after 1 January 2019 subject to endorsement by the European Union. Lessees have a choice as to whether to apply IFRS 16 with full retrospective effect or alternatively to recognise the cumulative effect of initial adoption as an adjustment to opening equity at the date of initial application. The timing of any UK Generally Accepted Accounting Principles (GAAP) convergence with IFRS has yet to be specified and therefore when these changes will impact those companies not reporting under IFRS, or whether they ever will, is currently unknown. The following section provides an outline of the accounting implications for companies leasing company cars ("lessees"), other consequences for consideration and why contract hire will continue to play an important role in vehicle leasing.

Overview

IFRS 16 specifies how leases are recognised, measured, presented and disclosed. The Standard provides a single lessee accounting model, resulting in a change to lessee accounting. The distinctions between operating leases (often called Contract Hire) and finance leases are removed with assets and liabilities recognised in respect of all leases (subject to limited exceptions for short term leases and low value assets). It is important to recognise that this change is from an accounting treatment perspective only and that the operational benefits of contract hire remain.

Lessee accounting

Upon lease commencement a lessee will be required to recognise a right-of-use asset and a lease liability, with the right-of-use asset initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee.

The right-of-use asset, which represents the right to control the asset over the lease term would be recognised as a non-financial asset on the balance sheet and depreciated over the term of the lease.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, excluding variable payments (unless based on an index or rate), discounted at the rate implicit in the lease (if that rate cannot be reliably determined, the lessee shall use their incremental borrowing rate).

The lease liability would be recognised separately and interest recognised in the income statement on a constant yield basis, resulting in a front-loaded expense profile in the same manner as existing finance leases. Any rental payments are split between capital and interest and reduce the outstanding lease liability.

For contracts that contain a lease component and a non-lease component, such as the lease of car and the provision of a maintenance service, lessees shall allocate the consideration payable on the basis of the relative standalone prices, which shall be estimated if observable prices are not readily available. However, as a practical expedient, a lessee may elect, by class of asset, not to separate non-lease components from lease components and instead account for all components as a lease.

Whilst the accounting impact on existing finance lease arrangements for lessees will be minimal, operating lease arrangements, such as traditional contract hire agreements, may be impacted as demonstrated in the example below:

Example:
A company signs up to a 36-month contract hire agreement with a leasing company for the lease of a company car. The agreement is for monthly lease rentals of £370 (£4,440 per annum) and a maintenance charge of £30 per month (£360 per annum). The lessee's incremental borrowing rate is 5% and the implicit rate is not readily determinable.

IAS 17 accounting treatment
Under IAS 17 the lessee would currently recognise no asset or liability on the balance sheet (on the basis that substantially all of the risks and rewards have not passed to the lessee) and in the income statement a total of £4,800 would be recognised each year as follows:

Year	Lease rentals	Maintenance Cost	Total P&L charge
1	£4,440	£360	£4,800
2	£4,440	£360	£4,800
3	£4,440	£360	£4,800
Total	**£13,320**	**£1,080**	**£14,400**

IFRS 16 accounting treatment
Under IFRS 16 the lessee would recognise a right-of-use asset in the balance sheet on commencement of the lease with the associated interest expense recognised as a finance charge and the straight line depreciation expense recognised within administrative expenses.

Year	Lease liability	Interest expense (5%)	Right-of-use asset	Depreciation expense	Maintenance Cost	Total P&L Charge
0	**£12,416**	-	**£12,416**	-	-	-
1	£8,478	£501	£8,277	£4,139	£360	£5,000
2	£4,342	£305	£4,139	£4,139	£360	£4,803
3	£0	£98	£0	£4,139	£360	£4,597
Total	-	**£904**	-	**£12,416**	**£1,080**	**£14,400**

The cumulative income statement charge under IAS 17 and IFRS 16 are identical, however, IFRS 16 results in a front-loaded interest expense and a straight line depreciation expense and maintenance cost compared to a straight line total cost under IAS 17. In addition the total cost under IAS 17 is presented within operating profit, while under IFRS 16 the depreciation and maintenance expense would be shown within operating profit and the interest expense presented below operating profit within interest payable.

What does this mean for lessees?

- Accounting will become more complex for lessees and they will need to monitor and record lease liabilities and right-of-use assets for their fleet vehicles as well as calculating the associated interest, depreciation and maintenance expense separately.
- Changes in the recognition of assets and liabilities has the potential to impact key financial performance indicators, such as earnings before interest, taxes, depreciation and amortisation (EBITDA), operating margin and debt-to-equity ratios. As a result debt covenants may need to be renegotiated if they are not based on a 'frozen' GAAP.
- Regardless of these changes, companies will continue to lease vehicles and the loss of the current off balance sheet treatment of operating leases under IAS 17 is unlikely to be a key consideration for many. It is important to note that the cash costs of leasing will remain the same despite the change in accounting and the existing economic benefits of contract hire will remain in that it:
  - is available at a fixed monthly cost;
  - is a flexible and cost effective option of financing vehicle fleets;
  - limits exposure to residual value risk; and
  - provides the option of an integrated fleet management service.

Whilst the new Standard will result in changes it is important to remember that investors and analysts may have previously made their own estimates of off balance sheet lease liabilities (certain disclosures around the extent of operating lease commitments are currently required under IAS 17) and therefore the impact on company balance sheets may not be totally unexpected. In fact in some cases it may be that those estimates were somewhat prudent and in fact much larger than the extent of the lease liabilities that will come onto the balance sheet under IFRS 16.

Lessees are encouraged to plan ahead and consider the potential impacts, particularly where the effects are likely to be significant.
IFRS 16 will apply to annual reporting periods beginning on or after 1 January 2019 subject to endorsement by the European Union.

LeasePlan

Emissions Testing

What's next?

Worldwide Harmonised Light Vehicles Testing Procedure (WLTP)

Introduction

Across the globe various organisations, including regulators, environmental groups, trade bodies and consumers continue to have concerns regarding the issue of air quality and pollution – particularly in the major conurbations. As part of this, a key area of focus has been the process and regulations involved with the measurement and certification of vehicle emission levels. A range of studies by different organisations have highlighted differences between certified emission levels seen in laboratory testing and, those seen in the real world. When taking account of the potential health and environmental concerns surrounding air quality levels and pollution, it is easy to understand why this is considered an important issue.

Background

In the UK, the current test process for vehicle emissions is called the New European Driving Cycle (NEDC), which was designed in the 1980s and was last updated almost 20 years ago. Due to changing patterns of vehicle use and new technology, the current test process has become outdated. This has led to the development and implementation, from September 2017 of a revised testing procedure – the Worldwide Harmonised Light Vehicles Testing Procedure (WLTP).

What is WLTP and what is the difference from the current testing methodology?

WLTP is a new vehicle testing regime aimed at delivering more realistic CO_2 and fuel consumption measurements for new vehicles. The WLTP, although still a laboratory test, will operate over a more representative pattern of use and load conditions than the NEDC test: a greater distance of 23km (versus 11km); an increased duration of 30 minutes (versus 20 minutes); with four (as opposed to two) driving situations – urban, suburban, main highway and motorway; changes to vehicle mass and aerodynamic criteria. These and other changes in test regulations have been designed to create more realistic measurements to better inform consumers. It is expected that WLTP data will lead, on average, to higher CO_2 emission and lower fuel consumption values compared to the equivalent NEDC values. However, it's worth noting that some features of the WLTP may result in lower emission levels than the same vehicle tested under the NEDC. For example, the longer test cycles in the WLTP may mitigate the impact of a cold start as they would allow a catalytic converter to warm up and operate more efficiently. Also, with the emissions being measured and averaged over the longer test cycle, the effect of the cold start on the overall results will be diminished.

When will WLTP regulations be introduced?

The WLTP regulations were published by the European Union in June 2017. Manufacturers are already 'testing' vehicles under the regulations as currently drafted. From September 2017, all new car models seeking type-approval to show they meet technical and administrative requirements to be sold in the EU (also known as "homologation") must be tested under WLTP rules. All new cars will be tested under WLTP from September 2018. Vans will follow 12 months later. The draft regulations currently exclude Hybrid and PHEV models and information on regulations for WLTP testing on these vehicles is expected when the final regulations are published.

Will the new WLTP CO_2 measurements now be used for taxation purposes instead of NEDC?

It is anticipated that there will be no immediate impact as an element of the WLTP procedure is to simulate an equivalent NEDC CO_2 value. NEDC is scheduled to continue as the basis for determining UK taxation (Company Car Tax and Vehicle Excise Duty for example) until 2020 – from which point only WLTP values will be produced. The 2020 date and the continued use of NEDC values are to allow manufacturers to comply with CO_2 targets set by the EU. However, there are some concerns that the UK government may seek earlier adoption of WLTP which may increase taxation above current legislated measures.

What impact will WLTP have on fleet operations?

At this point in time the impact is unclear. We await publication of vehicle data from manufacturers under WLTP, as well as simulated NEDC results for comparison. The availability of more realistic fuel consumption and/or revised CO_2 data may influence choice lists where environmental and Whole Life Cost principles determine suitability and benefit levels.

Real Driving Emissions (RDE) testing

In addition to the WLTP data on CO_2 and fuel consumption a new test – RDE – for other pollutants such as NO_x is also being introduced. Based upon actual road driving and extended range and conditions the RDE test will use a Portable Emission Measurement System (PEMS) to set conformity levels ("not to exceed" values) for new vehicles. Newly homologated vehicles will report RDE from September 2017 whilst ALL new vehicles must be reported by September 2019.

The introduction of both WLTP and RDE standards clearly recognises the widespread desire to improve air quality – particularly in the urban environment. In future, we could see increasing scrutiny on the environmental credentials of UK fleet composition and the new testing regimes guiding policymaking on matters such as general taxation of vehicles and local initiatives on emission zone charging.

LeasePlan

Employee Car Ownership

What's next?

Employee Car Ownership

An alternative funding option for a company wishing to provide company cars to employees is an Employee Car Ownership Scheme (ECOS).

What is an Employee Car Ownership scheme?

Broadly, an ECOS is an arrangement put in place by a company that allows its employees to acquire a car, usually within a specified framework and from a single fleet provider. The scheme is usually designed to give similar benefits to a company car from the employee's perspective with the policy often remaining comparable in terms of how issues like car selection, support and servicing and reallocation are dealt with.

It is important to be aware that the term "Employee Car Ownership Scheme" is only one of many used by providers to describe arrangements of this type. Other descriptions which often refer to the same arrangement include:

- Employee Car Ownership (ECO)
- Employee Car Ownership Plan (ECOP)
- Structured Employee Car Ownership Plan (SECOP)
- Employee Car Plan (ECP)
- Personal Employee Car Ownership Scheme (PECOS)

Although they broadly offer the same benefit, the different arrangements may also differ in terms of some of the detail of implementation and operation. Whatever the product description used, it is important to gain a detailed understanding of how the scheme works by reading all the accompanying documentation.

How does an employee car ownership scheme work?

An ECOS will typically be used to provide a car to an employee but it is structured in such a way that the company car tax benefit does not apply. Tax legislation sets out the conditions under which a car provided to an employee will be classified as a company car under the law and it will be important for a correctly structured ECOS to ensure these do not apply.

Where the employer is involved in implementing and/or operating the ECOS that allows the employee to acquire a car, then the car will be provided "by reason of employment". However, in order for a car to be a company car, it must also be provided "without any transfer of the property in it". Under an ECOS, the car is generally supplied via a Credit Sale Agreement (CSA) which transfers the title to the employee at the outset. Because ownership of the car has passed to the employee it is not deemed to be a company car for tax purposes and is therefore treated as a private car.

With a private car, a business can reimburse employees for business mileage at HMRC's Approved Mileage Allowance Payment (AMAP) rates, which are significantly higher than the rates allowed for employees in a company car. Under an ECOS, the additional AMAP reimbursement is paid to the employee and used to meet the employee's cost of funding the private car. Where the additional AMAPs do not provide enough funds to meet all of the employee's liabilities it will typically be supplemented with a cash top-up paid through payroll. The cash top-up is generally used as a mechanism to maintain the employee's financial position relative to a traditional company car scheme. Due to the fact that business mileage levels vary each month, this typically leads to a mix of AMAPs and a variable cash top-up being paid each month under and ECOS. Given how this arrangement works, the new OpRA legislation will have a significant impact on current ECOS arrangements as outlined below.

It is also worth noting that, for accounting purposes, cars provided using an ECOS are currently treated as off balance sheet which may be seen as beneficial by some businesses.

What are the implications of using an Employee Car Ownership scheme?

The most common reason for a company to consider the use of an ECOS is the potential savings it could offer when compared to providing cars through a traditional company car scheme. If the correct fleet profile is present, which can broadly be defined as high levels of business mileage and a low cost of car provision, potential employer savings could be significant. However, it is critical to be aware that where an ECOS is operated and the correct fleet profile is not present, it can potentially cost significantly more than a traditional, well-designed, company car scheme.

When it comes to the implementation and operation of an ECOS it is likely to be much more complex than a traditional company car scheme for a number of reasons. These may include:

- the fact that an employee will sign a contract to take ownership of the car, which can involve complications such as credit checks on employees;
- whether the employee wants to own a car related to their employment;
- the funding within an ECOS tends to be a mix of AMAP and gross salary and it is important to correctly calculate all of the income tax and NICs due to ensure HMRC compliance; and
- the complexity of ECOS arrangements can make them difficult to explain to employees, so greater costs may be needed for administration.

What are the implications of the Optional Remuneration legislation for Employee Car Ownership Schemes?

As noted in the Finance Act and Optional Remuneration section, most ECOS arrangements in their current form are likely to be affect by the new legislation. As a result, the implications of this are:

- AMAPs will no longer be exempt from income tax when paid by an employer as part of an OpRA arrangement.
- Where ECOS arrangements are affected they will lose their tax efficiency and so the main reason (employer cost reductions) for implementation will fall away.
- The implications will take effect for new arrangements entered into on, or after, 6 April 2017.
- Under grandfathering provisions any existing ECOS arrangements will only be effective until 5 April 2018 (where there are no changes made to the terms of existing arrangements).
- No tax relief will be available for employees on the AMAP paid by the employer as part of an OpRA arrangement.
- The current exemption from NICs for AMAPs is not affected by the Finance Act, but this can be changed by secondary legislation at any time to mirror the new tax rules.

However, it is worth noting that if the structure of ECOS arrangements is changed so that they no longer fall within the scope of the OpRA legislation then they may carry on as a viable alternative to providing company cars. If an ECOS arrangement is changed so that it does not rely on a variable cash top-up then it should not fall within the scope of the OpRA legislation. For some businesses, it may be possible to revise their current arrangements to fall outside of the OpRA legislation while delivering a financial benefit when compared to providing company cars. It is worth noting that the changes required to move an ECOS outside of the OpRA legislation could reduce the potential savings when compared to the arrangement previously operated.

Despite the change in structure, it is likely that many of the historic issues involved with operating an ECOS will apply, but additional considerations may also arise from the way in which the new arrangement is designed and operated. The design of an ECOS arrangement will depend on driver profiles, cars involved and business mileage levels in order to operate effectively. It will be important for businesses currently operating an ECOS, or those thinking about a implementing a new one, to carefully consider the benefits and risks of the arrangement in detail before committing to any changes.

LeasePlan

Cash Allowances

What's next?

Cash allowances

Offering cash allowances in lieu of company cars increases employee choice but care is needed to ensure that the cash policy does not create added costs and uncertainty for the employer.

What about offering a cash allowance instead of a company car?

Offering a company car was once a relatively straight forward and tax efficient way of providing a benefit to employees. However, the changing tax landscape and a desire by some companies to give employees more flexibility has meant that the case for providing company cars, especially cars provided as a perk rather than for a business need, became less clear-cut. As an alternative, companies offer employees the choice of a company car or a cash allowance in lieu of the car (often referred to as a ‘cash or car’ type arrangement).

The popularity of providing cash allowances increased following their inception and based on the general consensus from market surveys, a significant number of companies now offer a cash allowance in some form or another. However, since the introduction of the OpRA legislation the complexity and administration involved with operating a cash or car arrangement has increased. As a result, some businesses may take the opportunity to reconsider the choice of car scheme arrangements they offer to employees.

Despite the recent changes in legislation, there can be benefits for a company and its employees where cash allowances are provided. However, as with many arrangements, care needs to be taken to make sure they are right for the company and provided in a well-structured way that takes accounts of current and future legislation.

What are the benefits for an employee?

Where employees are provided with the choice of a company car or a cash allowance they have a greater ability to choose a benefits package that suits their needs and lifestyle. They may opt for the cash allowance to fund a car that is not available on the car scheme, or spend less than their full allowance and receive more income. Also, an employee using the allowance to fund a car will own it and be free to make choices about how and what they do with it, such as replacing it more or less frequently than the company car they would have been entitled to.

However, employees must balance this freedom of choice with the costs and risks associated with running their own car. With a company car, normally the company will cover the running costs of the vehicle, such as servicing, road fund licence and insurance. An employee needs to remember that they will be responsible for these costs and factor them into their financial calculations when choosing a car.

What are the implications for a company offering cash allowances instead of a company car?

For some companies, providing cash allowances in place of a car may have negative as well as positive consequences. For example, providing a cash allowance should reduce or remove the administrative burden of providing company cars. However, there is a greater risk of the unknown for companies providing cash allowances as they have less control over the cars employees use for business purposes. Also, with the new OpRA legislation the act of offering a cash allowance as an alternative increases the complexity of administering the company car scheme, even if no-one actually opts to receive a cash allowance.

In another scenario, a company could introduce cash allowances as an alternative to company cars to try and reduce benefit provision costs. However, if employees opt out of the car scheme this could reduce volume support and manufacturer discounts received on remaining company cars, pushing those costs higher. This might negate any cost savings from introducing cash allowances. Therefore it is important that a company fully considers all of the issues and makes sure that cash allowances are an appropriate choice.

Whether a company introduces cash allowances or offers a choice between a company car or a cash allowance, the policy on cash allowances should be set by reference to the WLC after tax of the company car. This will ensure that the post-tax cost to the company will remain at the same level regardless of whether the employee selects a company car or cash allowance.

How do you determine the level of a cash allowance?

While it is relatively easy to understand how much cash allowances cost a company, the key question becomes where to set the level of the cash allowance offered to employees. The company should be confident in what it is seeking to achieve at the outset and offer allowances set at a level to deliver this. Will it, for example, be looking to save costs or simply match what is spent on providing company cars? Is the company comfortable that, inevitably, some employees will gain more under cash allowances, while some will lose out?

If cash allowances are offered alongside a company car scheme, with the objective to be cost neutral to the company on a post-tax basis, it is advisable that any company seeking to introduce such a policy should optimise its company car scheme, before it introduces such changes.

These and other equally important issues relating to the design of a cash allowance system need to be addressed, before core questions relating to the cash calculations are addressed, such as:

- Will the cash allowance be calculated to leave the company in a neutral financial position?
- Will the cash allowance be calculated to leave the employee in a neutral financial position?
- Will the same cash allowance be calculated for each grade of employee?
- Where should the cash allowance levels be positioned when compared to those offered by competitors?
- What rate of business mileage reimbursement should be paid to employees receiving a cash allowance?
- If cash allowances are optional, what can be done to stop employees 'cherry picking' the best option for them, which is usually the most costly for the company?
- If an employee chooses a cash allowance, what degree of control will the company try and retain over vehicle selection, etc.?

So the simple question of what is the correct level of cash allowance can become quite complex. When you consider the scale of the sums involved and the number of employees this can be an expensive benefit to provide and one where mistakes could be costly.

How can a company reimburse employees for the cost of business miles travelled in their own car?

As with company cars, employees undertaking business mileage on behalf of their employer will generally be entitled to receive reimbursement from the company for the cost of the fuel they have used. However, unlike company cars, where only the cost of fuel is reimbursed, there are other costs to consider with private cars. The reimbursement for employees using their own car for business mileage will be set to cover costs like servicing, insurance, depreciation etc. that may be higher as a result of business mileage.

Approved Mileage Allowance Payments

HMRC publishes guidance on the rates a company can pay to employees who use their own cars for business journeys. The Approved Mileage Allowance Payments (AMAP) rates set out the maximum amount per mile that may be reimbursed to employees without triggering an income tax or National Insurance charge. The current rates are as follows:

From 2011/12	First 10,000 business miles in the tax year	Each business mile over 10,000 in the tax year
Cars and vans	45p [1]	25p

[1] *The 10,000 mile limit does not apply to National Insurance.*

Where employees receive no funding to pay for a car (i.e. employees without a cash allowance who undertake insignificant levels of business mileage), companies will typically reimburse for business mileage at the full AMAP rates. However, where employees receive a cash allowance, companies often reimburse for business mileage below AMAP rates. Otherwise there is a risk that employees will profit on the rate reimbursed and this could encourage unnecessary business mileage.

For example, if an employee is driving a private car with fuel consumption of 50 MPG and a fuel price of £1.19/litre (equivalent to £5.41/gallon) each mile travelled would cost approximately only 11p per mile in fuel. If the driver were being reimbursed at 45p per mile, this would leave 34p per mile to cover the additional cost of servicing, insurance and depreciation resulting from the extra mileage driven. It may be that the additional costs are not 34p and the employee is profiting from the reimbursement they receive for business mileage.

Many companies address this by reimbursing below HMRC's AMAP rates to have greater control over costs while removing the incentive for driving excessive mileage. Using HMRC's Advisory Fuel Rates (AFRs) is a popular alternative as one set of rates is easier to administer and the rates are set at a level designed to cover the cost of fuel used.

What is Mileage Allowance Relief?

If a company reimburses for business mileage below the AMAP rates an employee is entitled to claim tax relief, but not National Insurance relief, on the difference between what they actually received and what they were entitled to based on permitted rates. This is known as the Mileage Allowance Relief (MAR) and, depending on the level of business mileage driven, this can equate to a significant amount for an employee.

For example, if an employee drives 6,000 business miles per year they are entitled to AMAPs of 45p per mile which equates to a total approved amount of £2,700. If the reimbursement rate received was actually 14p per mile they would only receive £840, a shortfall of £1,860 compared to what they can claim tax relief on. The employee can therefore claim tax relief at the end of the tax year for this amount and, assuming they are a 40% tax payer, the relief would be worth an additional £744 (£1,860 x 40% = £744).

In order to claim MAR from HMRC the employee will have to provide sufficient proof of the number of business miles driven, the amount of reimbursement received and the value of any MAR due. There are a number of ways in which an employee can claim MAR, including submission of the required information on their self-assessment return, use of a Form P87, or even requesting that HMRC reflects MAR in their personal tax code.

Let's look at some examples

To help illustrate the implications of providing cash allowances to employees, we have detailed below some examples showing the cost to the company and the financial position for the employee where cash allowances are provided.

Example 1: An employee is a basic rate tax payer and travels 10,000 business miles each year

The table below shows the cost to a company of providing a car to an employee, either as a company car, or as a privately-funded car, or as a car funded using a cash allowance.

The employee is assumed to travel 10,000 business miles per year and be reimbursed at HMRC's AFRs for company cars in all three scenarios.

Company position	Annual cost	Diff' £s	Diff' %
Company car	£5,215	-	-
Cash allowance (company neutral)	£5,215	£0	£0
Cash allowance (employee neutral)	£6,067	£852	16%

The cost to the business of providing the company car, or a company neutral cash allowance, would be £5,215 per annum. In this scenario, the cash allowance offered would set at a level to keep the company neutral when compared to the cost of the company car.

However, if the cash allowance was set at a level to keep the employee in a neutral position (i.e. the employee is no better or worse off when compared to their position in a company car) the cost of funding the cash allowance would be £6,067 per annum. This would equate to an increase of £852 per annum (16%) over the cost of funding the company car.

It is important to note that the figures above assume that the employee also makes a full claim to HMRC for MAR worth £680 (net) per annum. If the employee fails to make a MAR claim, which many do, this would leave them financially disadvantaged compared to the level of funding they are entitled to when undertaking business mileage in a private car.

Example 2: An employee is a higher rate tax payer and travels 5,000 business miles each year

The table below shows the cost for a company of providing an Audi A4 to an employee covering 5,000 business miles per annum.

Company position	Annual cost	Diff' £s	Diff' %
Company car	£5,668	-	-
Cash allowance (company neutral)	£5,668	£0	£0
Cash allowance (employee neutral)	£5,845	£177	3%

The cost to the business of providing the company car, or a company neutral cash allowance, would be £5,668 per annum. In this scenario, the cash allowance offered would be set at a level to keep the company neutral when compared to the cost of the company car and would.

However, if the cash allowance was set at a level to keep the employee in a neutral position (i.e. no better or worse off than they were in the company car) the cost of funding the cash allowance would be £5,845 per annum. This would equate to an increase of £177 per annum (3%), when compared to the cost of funding the company car.

As with example 1, the figures above assume that the employee also makes a full claim to HMRC for MAR – worth £680 (net) per annum in this example. It is worth noting that, although the employee in example 2 only travels 5,000 business miles, they are a higher rate tax payer, and so the MAR is worth almost as much as the basic rate tax payer travelling twice the number of business miles each year. As before, if the employee fails to make a MAR claim, this would leave the employee financially disadvantaged compared to the level of funding they are entitled to when undertaking business mileage in a private car.

What is an optimised cash allowance arrangement?

An alternative funding option for a company providing cash allowances to employees is an optimised cash allowance arrangement. Typically, these arrangements are implemented by a business where its employees receive a cash allowance and undertake business mileage in their own car where the business mileage reimbursement rates for these employees are below HMRC's AMAP rates.

How does an optimised cash allowance arrangement work?

A cash allowance paid to an employee is treated as earnings and therefore the value of the cash allowance attracts a tax and Class 1 employer and employee NIC charge. In contrast, an AMAP paid to an employee in respect of allowable business mileage in a private car will not trigger a tax or NIC charge. In essence, an optimised cash allowance arrangement works by restructuring payments made to an employee to replace the cash allowance paid with AMAPs where there is the opportunity to do so.

While the mechanics of an optimised cash allowance arrangement are relatively easy to understand at a high level, there is some complexity involved with implementing and operating this type of arrangement. For example, it is necessary to restructure each individual employee's payments based on their individual cash allowance and business mileage claims. Also, the calculations to restructure payments need to be done on an earnings period basis in order to remain compliant with National Insurance legislation. However, most optimised cash allowance arrangements will be implemented with the support of a technology solution to minimise any administration and manage potential compliance risk.

What are the implications of the Optional Remuneration legislation for optimised cash allowance arrangements?

Due to the way in which optimised cash allowance arrangements work they will be affected by the OpRA legislation in much the same way as ECOS arrangements. As a result, most optimised cash allowance arrangements will cease to be effective where AMAPs are no longer be exempt from income tax when paid by an employer as part of an OpRA arrangement. The implications will take effect for new arrangements entered into on, or after, 6 April 2017 and any applicable grandfathering provisions will only be effective until 5 April 2018 (where there are no changes made to the terms of existing arrangements).

As with ECOS arrangements, there may be opportunities to change the structure of optimised cash allowance arrangements so that they no longer fall within the scope of the OpRA legislation. Any new arrangement would have to operate in such a way that the level of cash allowance provided remains fixed to avoid the risk that the OpRA legislation would apply. Where this is possible the revised arrangements may still offer cost reductions and carry on as a viable alternative to providing fixed cash allowances to employees. In this situation, it is likely that many of the historic implications of operating optimised cash allowance arrangements will apply, but additional issues may also arise from the design of new arrangements. It will be important for businesses currently operating an optimised cash allowance arrangement, or those thinking about implementing a new one, to carefully consider the benefits and risks of the arrangement in detail before committing to any changes.

What are the implications of using an optimised cash allowance?

The objective of implementing an optimised cash allowance arrangement is typically to deliver a cost reduction for the company. With a good sized population of employees and the right profile of business mileage, an optimised cash allowance arrangement can deliver worthwhile savings when compared to traditional fixed cash allowances. Also, it carries a relatively low financial risk because if the right profile of business mileage is not present, then the cash allowance and business mileage reimbursement paid will be the same as a traditional fixed cash allowance.

Depending on the way in which an optimised cash allowance arrangement it is structured, it can also deliver a financial benefit to employees through reduced NICs. It can also ensure employees receive the full value of any MAR they are entitled to through payroll which can reduce employee administration. Where employees have not claimed MAR this can result in a further increase in take home pay.

When it comes to the implementation and operation of an optimised cash allowance arrangement it typically involves additional administration when compared to traditional fixed cash allowances. This may include:

- The work involved in communicating to employees how the arrangement works.
- Answering any employee queries about the arrangement.
- The additional administration involved with the monthly processing of business mileage claims.
- Seeking assurance from HMRC in respect of the income tax and National Insurance treatment of payments in the arrangement.

What non-financial factors should also be examined when providing cash allowances?

A company needs to consider other non-financial factors when moving from a company car scheme to a cash allowance scheme.

Corporate image
Giving employees the freedom to spend money on their choice of vehicle is great, but what boundaries need to be set? For example, if an employee arrives at work driving a new, two-seater sports car, this raises questions as to what message this sends out to company clients when they visit them. The correct image is important to a company and a car that sends an inappropriate message is not helpful in this regard.

Corporate risk
Replacing a company car with a cash allowance relieves the company of the ability to control such things as maintenance, insurance and MOTs and these instead become the responsibility of the employee. However, many companies are battling with how to deal with what is sometimes referred to as the “grey fleet”, where cars are termed ‘grey’ because it is often unclear where responsibilities lie for such matters as insurance and maintenance. The lack of control can give rise to concerns around corporate manslaughter legislation which provides for some very severe measures against companies that are not ensuring employees are properly insuring and maintaining private vehicles used for business purposes.

Car scheme policy and administration
The above two issues highlight areas where a company would have to issue guidelines and become involved in administrative matters.

In the example regarding corporate image, it may be necessary to issue guidelines for all cars (e.g. all cars must have four doors, or the boot must be large enough to carry standard company equipment). It will become someone’s responsibility to check that an employee’s choice of car conforms to these criteria prior to approval.

In the example on corporate risk, it may be necessary to introduce a system whereby copies of a driver’s insurance, MOT and VED certificates are all recorded. Again, it will become someone’s responsibility to monitor this system, record all the information and chase drivers when certificates held on file are out of date.

Companies may be ill-prepared to deal with these new administrative tasks and may not have the appropriate systems in place to do so. Inevitably, this would lead to an increased level of administration. The introduction of such systems may not suit every organisation but they are an integral part of introducing a cash allowance scheme.

What other considerations are there when providing cash allowances?

When examining the provision of cash allowances there are further considerations worth bearing in mind. These include:

Q) Is it possible to reclaim VAT on reimbursement paid for business mileage?
A) A company can reclaim VAT on the reimbursement paid to employees travelling business mileage in a private car. However, if the company reimburses at a rate in excess of the equivalent AFR then the VAT is typically capped at the level of AFRs.

Q) What happens if a company reimburses employees for private mileage?
A) If an employee is reimbursed for the cost of private fuel used in a private car the impact on the company and employee is quite different to that in a company car as there is no fixed private fuel scale charge and the cost is related to the amount of fuel used.

The employee will pay tax on the value of the fuel used and this will generally be reported to HMRC on the Form P11D at the end of the year.
The company will pay for the private fuel purchased, any applicable VAT and employer's NICs based on the value of the private fuel used.

Q) What happens if an employee has not claimed Mileage Allowance Relief (MAR)?
A) If an employee is reimbursed for the cost of private fuel used in a private car the impact on the company and employee is quite different to that in a company car as there is no fixed private fuel scale charge and the cost is related to the amount of fuel used.

The employee will pay tax on the value of the fuel used and this will generally be reported to HMRC on the Form P11D at the end of the year.

The company will pay for the private fuel purchased and any applicable VAT. In addition, the payment of private fuel should be processed through payroll for NI purposes and subject to Class 1 NI, both employee and employer NI withholding.

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Salary Sacrifice

What's next?

Salary sacrifice

Salary sacrifice is a contractual arrangement where an employee gives up the right to receive part of their salary, usually in return for their employer's agreement to provide some form of benefit.

What is salary sacrifice for company cars?

Salary sacrifice is an integral part of many flexible benefits packages offered by companies to their employees. Over the last few years the provision of a company car as part of a salary sacrifice arrangement has become increasingly popular. Typically, a salary sacrifice for company car arrangement allows the employee to receive a fully financed, maintained and insured company car in return for sacrificing their entitlement to an amount of salary.

The introduction of the OpRA legislation has had a significant impact on the popularity of salary sacrifice for company car schemes. This is hardly surprising given the intent behind the OpRA was to remove the income tax and NIC advantage of salary sacrifice arrangements. However, the new legislation has not completely removed the financial advantage that can be delivered and when other non-financial benefits are taken into account there may still be a case for offering company cars via salary sacrifice.

Why is salary sacrifice for company cars attractive?

Since the OpRA legislation took effect, the financial advantage offered by salary sacrifice schemes has been significantly diminished. While the new legislation has removed the income tax advantage of making a salary sacrifice, there is still an employee NIC benefit (either at 2% or 12%) associated with making a sacrifice. Also, where companies leverage their corporate buying power and factor this into their salary sacrifice arrangements, this can significantly enhance the attractiveness of these schemes to employees.

It is worth noting that ULEVs are carved out from the new OpRA legislation and so these cars will continue to operate under salary sacrifice arrangements as they did previously.

What are the benefits of offering company cars via salary sacrifice?

One of the main benefits for a company implementing salary sacrifice is the positive impact that offering a more flexible and engaging benefits package can have on recruitment and retention. A salary sacrifice arrangement can also tap into the company's corporate buying power which, when combined with the selection of a low emission car, allows the provision of a new company car at a much lower cost than the employee funding the same car privately.

As there is no longer a tax advantage for cars with middle levels of CO_2 emissions, the incentive to get employees to choose cars with lower emissions (i.e. those classified as ULEVs) is even greater than before. This can have a measurable impact on the carbon footprint of employees where older private cars that typically have higher CO_2 emissions are replaced with new ULEVs with lower emissions and greater fuel efficiency.

A concern for some companies is how to deal with "grey fleet" issues where employees undertake business travel in a privately owned car. Where employees are moving to company cars provided via salary sacrifice, the company will have greater visibility – and hence control – over these, and other, vital issues connected with running the car.

Let's look at some examples

To help illustrate the potential benefit for employees we have included some examples that show the monthly cost of opting for a company car via a salary sacrifice arrangement and the cost of the same car if it was funded privately.

Selected car	Gross salary sacrificed	Net cost of sacrifice (at 40%)	Tax on company car benefit	Net cost of car to employee	Private leasing cost	Employee saving
AUDI A1 5DR 1.4T	£346	£201	£147	£348	£ 498	£ 150
FORD FIESTA 5DR 1.5d ST-Line	£321	£186	£135	£321	£ 442	£ 121
VW POLO 5DR 1.0 60 Beats	£262	£152	£112	£264	£ 390	£ 126
NISSAN QASHQAI 1.6d N-Connecta	£433	£251	£240	£491	£ 573	£ 82
BMW 330e 4DR M-SPORT	£587	£340	£157	£497	£ 783	£ 286
BMW i3 5DR 94ah LOF	£551	£320	£157	£477	£ 783	£ 306

The examples above compare the monthly cost of a car via salary sacrifice to one provided through a fully maintained and insured personal lease with the same payment profile.

In all scenarios, the employee would be better off opting for a car via salary sacrifice when compared to funding the same car privately.

How does HMRC deal with salary sacrifice arrangements?

The concept of salary sacrifice has been around for many years and is used successfully to deliver a wide range of benefits that includes cars, pensions, bikes to work, parking, childcare and more. HMRC will want to review the arrangements companies put in place to ensure that everything is implemented in a correct and compliant manner. Given the new OpRAs legislation, this will be high on HMRC's agenda, so where a company continues to operate a scheme they should take extra care to ensure it is compliant.

The approach requested by HMRC is that once a salary sacrifice arrangement is in place, a company can ask the HMRC Clearances Team to confirm its tax and NIC implications. HMRC states that it will not comment on a proposed salary sacrifice arrangement before it has been put in place. To manage the impact of this, companies will typically seek HMRC clearance once the scheme has been implemented.

It is important to note that the review by HMRC will be on a case-by-case basis and it is not possible to get a blanket approval for an "off the shelf" scheme that a leasing company may be able to provide.

As announced in the Finance Act 2017, the government is limiting the range of benefits that attract income tax and NIC advantages when provided as part of salary sacrifice scheme. However, the Government specifically carved out pensions, childcare, Cycle to Work and ULEVs, which means they continue to benefit from income tax and NIC relief via salary sacrifice arrangements.

What other considerations are there for salary sacrifice?

When examining salary sacrifice arrangements for company cars there are further considerations worth bearing in mind. These include:

Q) Will salary sacrifice work for all companies?

A) While salary sacrifice can offer a wide range of benefits it is important for companies to consider their objectives alongside the motivations and profile of their employees to make sure it is the right fit. For example, if employees do not place much value on access to a new car or they change employment quite frequently then salary sacrifice may not be right. However, there are often different employee populations within a company and whilst it may not be attractive for some it could be a good fit for others.

Q) Does salary sacrifice for company cars generate a saving for the company?

A) A salary sacrifice for company cars arrangement can be structured to generate a saving for the company if required. However, it is important to ensure that the sacrifice for the employee remains at a level such that it offers a commercial advantage when compared to a private car otherwise the level of take up from employees could be impacted.

Q) Can a traditional company car scheme run alongside salary sacrifice?

A) Underpinning a salary sacrifice for company cars scheme is the provision of company cars in much the same ways as a traditional company car fleet (i.e. generally they are provided via a corporate contract hire arrangement) and so there is no reason that a company cannot run both types of arrangement.

A number of companies have implemented salary sacrifice arrangements to complement their existing company car fleet, while others have used it to replace their current offering. The benefits and considerations of this decision should be covered as part of a feasibility study or scheme design stage of implementation.

Q) What are the risks to the company of implementing salary sacrifice for company cars?

A) Implementing any salary sacrifice arrangement requires careful thought and consideration to ensure that it is being done in an HMRC compliant manner.

Also, it is important to ensure that the arrangement is designed and implemented in a way that will see strong levels of employee take up.

If an arrangement is not designed correctly, then concerns such as early termination costs, interaction with internal systems and administering the scheme could result in more operational administration for the company than anticipated. However, a well-designed scheme should be able to avoid this.

Q) Does a salary sacrifice arrangement for company cars need to be made available to all employees?

A) Unlike some other benefits typically provided via salary sacrifice, there is no requirement for a company to make a salary sacrifice for company car scheme available to all its employees.

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Budget Timeline

What's next?

Budget Timeline

A diagrammatical representation of forthcoming legislation changes up to and including the 2021/22 tax year.

Budget 2017 – Timeline of changes

	2017/18	2018/19	2019/20	2020/21	2021/22
Company Car Tax	CCT for cars with CO_2 emissions of 0-50g/km to rise from 7% to 9% CCT for cars with CO_2 emissions of 51-75g/km to rise from 11% to 13% CCT for cars with CO_2 emissions exceeding 75g/km to rise by 2 percentage points (starts at 17%)	CCT for cars with CO_2 emissions of 0-50g/km to rise from 9% to 13% CCT for cars with CO_2 emissions of 51-75g/km to rise from 13% to 16% CCT for cars with CO_2 emissions exceeding 75g/km to rise by 2 percentage points (starts at 19%)	CCT for cars with CO_2 emissions of 0-50g/km to rise from 13% to 16% CCT for cars with CO_2 emissions of 51-75g/km to rise from 16% to 19% CCT for cars with CO_2 emissions exceeding 75g/km to rise by 3 percentage points (starts at 22%)	CCT for electric only cars (with CO_2 emissions of 0g/km) will be 2% [1] CCT for cars with CO_2 emissions of 1-50g/km will be between 2% and 14%, depending on electric range (2% for an electric range of 130 miles or more to 14% for an electric range of less than 30 miles) [1] CCT for cars with CO_2 emissions exceeding 50g/km will be 15% (rising 1 percentage point with every +5g/km) [1]	3 percentage point CCT surcharge for cars that run solely on diesel abolished
Private fuel benefit	Increase in the private fuel benefit multiplier to £22,600	Private fuel benefit multiplier to increase in line with RPI			
Corporation tax	1 percentage point reduction in main rate of corporation tax (from 20% to 19%)	CO_2 emissions threshold for 100% First Year Allowance to fall from 75g/km to 50g/km CO_2 emissions threshold for main and special rate pools to fall from 130g/km to 110g/km		2 percentage point reduction in the main rate of corporation tax (from 19% to 17%) [1]	
Vehicle Excise Duty	New first year rates introduced based on CO_2 emissions[2] A flat standard rate of £140 to apply after first year[2] (except zero-emission cars) £310 supplement on the standard rate for cars with a list price above £40,000[2] (for 5 years)				

Budget year change announced: 2014 | 2015 | 2016 | 2017

[1] Initially announced in the draft Finance Bill 2017 but removed from Finance Act 2017 enacted on 27 April 2017
[2] for cars registered 1 April 2017 onwards

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Glossary

What’s next?

Glossary

The following are definitions of terms for the purposes of this book.

A

Authorised Mileage Allowance Payments (AMAPs)

The statutory reimbursement rates for employees undertaking business mileage in a private car.

Advisory Fuel Rates (AFRs)

The rates published by HMRC for reimbursement for employees undertaking business mileage in a company car. If the rate paid per mile of business travel is no higher than the advisory rate for the particular engine size and fuel type of the car, HMRC will accept that there is no taxable profit and no Class 1 NICs liability.

B

Balloon

A large final payment under a financing agreement that is normally set in line with the forecast residual value of the car.

Benefit In Kind (BIK)

A reward for services that an employee receives from the company they work for, other than their usual cash pay. Company car is the main example within this guide.

Business mileage

A journey that the employee is obliged to undertake in the performance of their duties. Home to a permanent place of work travel is not deemed business mileage.

C

Capital Allowance

A means of obtaining a tax relief for the depreciation of an asset spread over a number of years.

Capital contribution

A capital sum an employee contributes towards the expenditure on the provision of a company car or qualifying accessory. The amount of the contribution is deducted from the list price when calculating the income tax due on the Benefit In Kind.

Car fuel benefit

The reportable value of fuel provided for private use in a company car.

Company car benefit

The amount chargeable to tax on an individual for a company car in a tax year.

Contract hire

The leasing of a car for a fixed monthly cost over a pre-agreed contract term and mileage (sometimes described as operating leases). The car is returned to the owner (the fleet provider) at the end of the contract term. The agreement may include the provision of services such as maintenance.

Contract purchase

A deferred purchase agreement normally with a balloon payment. The agreement may include the provision of services such as maintenance.

Contributions for private use

The amount an employee is required to pay as a condition of the car being available for private use. The amount of the contribution is deducted from the company car benefit for the year in which payments were made.

D

Depreciation

The loss in value between the purchase price and sale value of a car. This may differ from the depreciation for tax or accounting purposes.

F

Finance lease

Generally, a lease that transfers substantially the risks and rewards of ownership of an asset to the lessee. The agreement may include the payment of a balloon payment or may be a fully amortised with no balloon.

Fuel card

A method of payment whereby the business pays for the fuel used by an employee.

Fuel scale charge

The taxable benefit where an employee is provided with free fuel for private use.

H

Hire purchase

A purchase agreement where the title (ownership) does not pass until an option to purchase has been satisfied. This is normally a nominal payment.

L

Lease

An arrangement where the customer has use of goods but does not legally own them.

Lease rental

The payment under a lease agreement.

Lessee

The customer in a lease agreement.

Lessor

The owner of the goods in a lease agreement.

List price

See P11D Value.

M

Modified Cash Equivalent (MCE)

This is calculated using the same method as a CCT calculation for a BIK. However, the effect of any private use or capital contributions on the car is removed. It is compared against the amount of cash or salary forgone to calculate the basis for charging tax on a company car caught by the new OpRA legislation.

O

Operating lease

A lease where the risks and rewards of ownership are borne by the lessor. Normally defined as a lease other than a finance lease. Normally referred to as 'contract hire'.

Optional Remuneration Arrangements (OpRA)

An arrangement where an employee can forgo an amount of cash for a non-cash BIK or is offered a cash allowance as an alternative to a particular BIK. Common OpRA mentioned in this guide are cash or car, salary sacrifice and Employee Car Ownership Schemes. The Finance Act 2017 has introduced new charging provisions on these arrangements.

P

P11D Value

The list price of a company car used in the calculation of CCT.

Private mileage

Any mileage that does not constitute business mileage.

R

Rental
See lease rental.

Residual value
The amount for which a car is sold for at the end of the contract.

T

Tax year
For an individual, the tax year ends on 5 April. Therefore, the 2017/18 tax year runs from 6 April 2017 to 5 April 2018.

W

Whole Life Cost (WLC)
The post-corporation tax cost of funding a company car or cash allowance which includes all commercial costs (such as payments, maintenance, business fuel, etc.) as well as all direct and indirect tax costs.

Writing Down Allowance (WDA)
The amount of capital allowances that may be claimed in any single year, calculated as a percentage of the car's written down value for which a deduction may be taken in the company's tax computation.

Written down value
The residual tax value of a car in a company's tax computation. It is the original value of the car less the sum of capital allowances given since its purchase.

V

Value Added Tax (VAT)
VAT is charged on taxable supplies of goods and services.

VAT fuel scale charge
Where a business pays for road fuel on behalf of its employees a method of dealing with the VAT charged on the fuel is to reclaim all of the VAT and pay the appropriate fuel scale charge. This is a way of accounting for output tax on fuel that a business buys but that is then used for private motoring.

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