

Best of both worlds or out of range – do the numbers stack up for Hybrid & Electric Cars?

To aid in the swing towards hybrid and electric vehicles, the Benefit in Kind (BIK) rates for employees with these vehicles are more attractive now, in comparison to petrol and diesel cars. The reduction in the amount of tax and NIC's due on these vehicle benefits is sure to make the switch to hybrid and electric more viable for both employees and employers going forward.

In the current 2021/22 tax year, for all vehicles registered from 6 April 2020, BIK rates follow the Worldwide Harmonized Light Vehicles Test Procedure percentage (WLTP). Fully electric vehicles have a BIK rate of 1%, and will increase to 2% in the 2022/23 tax year, remaining at that rate in 2023/24 and 2024/25. For vehicles registered from 1 October 1999 to 5 April 2020, vehicles follow the New European Driving Cycle percentage (NEDC).

For hybrid vehicles, the number of miles that can be travelled on the electric range of the vehicle determines the rate of the benefit of the car. The link below details the latest benefit rates for vehicles. For all non-electric/hybrid vehicles, the BIK rate is still based on CO2 emissions. The BIK for a vehicle is based on the list price of the car (including any optional extras/upgrades) and not what you paid for the vehicle.

<https://www.gov.uk/guidance/company-car-benefit-the-appropriate-percentage-480-appendix-2>

Charging Points



There is no taxable benefit in kind to employees for charging their vehicle at an electric charging point at work. This applies for both business and personal mileage. However, if a charging point is provided by the employer at an employee's home, then a taxable benefit does arise based on the cost to the employer for providing this. There are a number of incentives available to employers for installing electric charging ports at workplaces including Government grants of up to £350 per socket and car dealerships offering installation schemes.

Capital Allowances on Cars

For new and unused cars bought from 6 April 2021 that are fully electric, you can claim the full cost of the vehicle as a First Year Allowance. For example if the vehicle cost £50,000, the £50,000 would be deducted from your taxable profit. It should be noted that the First Year Allowance is separate to the Annual Investment Allowance – therefore, the Annual Investment Allowance is still available for tax relief over and above the First Year Allowance.

For non-electric cars, the capital allowance rate is based on CO2 emissions – so if you are considering a hybrid vehicle it is worth checking the CO2 emissions rate on the car to see what allowances would be available. The rate of writing down allowances applicable to a car are either 18% or 6%. The 18% and 6% rate also applies to all second hand vehicles.

An example of how an electric car compares to a hybrid.

 electric	 hybrid
<p>Tesla Model 3 list price of £40,990 (deductible from your taxable profit) BIK cost to employer 21/22 tax year = £56 (£40,990 x 1% x 13.8%) Taxable benefit to employee = £409 (£40,990 x 1%) at their personal tax rate This would double in 22/23 tax year, remaining the same for the following two years after that.</p>	<p>BMW 520i list price of £42,775 (deductible from your taxable profit) BIK cost to employer 21/22 tax year = £1,888 (£42,775 x 32% x 13.8%) Taxable benefit to employee = £13,688 (£42,775 x 32%) at their personal tax rate The capital allowances available would only be at 6% on the reducing balance of the car each year – so the first year allowance would be £2,566 (£42,775 x 6%).</p>

As the rules change and electric and hybrid cars become more commonplace in the market, it is worth considering the potential benefits of these within business.

If you need further information regarding this area, please email info@thomsoncooper.com.

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