

Do greener company cars still make commercial sense?

By Tim Hardy, Shipleys Chartered Accountants

With climate change and air pollution hitting the headlines some businesses are considering making the switch to 'greener' company cars with low CO² emissions.

Tax savings for greener company cars

In recent years the benefit in kind cost of owning a low emission company car has increased significantly, leaving clients asking whether it still makes sense to buy an energy efficient car through the company. When purchasing a company car whose emissions are no greater than 50g/km, the current tax consequences are:

- The full cost of the new car is allowed against company profits in the year of purchase
- The benefit in kind charged on the employee for the tax year 2018/19 is 13% of an electric or petrol car's list price and 17% for diesels.

In the 2019/20 tax year the benefit in kind rate will increase further from 13% to 16% for electric and petrol cars and up to 20% for a diesel. These rates on low emission cars have risen considerably over the last few years.

However this all changes in 2020

From 6 April 2020 a new set of benefit in kind rates will be introduced. These will favour electric cars. The benefit in kind tax rate for zero CO² emission cars will be 2% and for cars with emissions between 1-50 g/km the rates will be based on the range of an electric car, rates will vary between 2% and 14% depending on the number of zero-emission miles the vehicle can travel.

As an example, from 6 April 2020 a company buying an electric car with a list price of £35,000 and zero emissions will annually cost the basic rate tax payer £140 of income tax as a benefit in kind (and a higher rate tax payer £280). The company would also be able to offset the cost of the purchase against its taxable profit.

In summary, although benefit in kind rates have increased considerably over the past few years and will increase further next year, for certain cars these rates will fall significantly from 2020. If you are considering purchasing a low emission car it may be worth evaluating whether it makes sense to buy it as a company car.

Be alert to further changes – particularly with Brexit

The tax rules for higher and lower CO² emission cars constantly change, and this article was written prior to the Chancellor's Autumn Budget in late October.

If you require advice on the latest tax consequences of purchasing a particular vehicle please contact our friendly team at Shipleys LLP.

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