

# Claiming VAT on motoring expenses



Claiming back the VAT on motoring expenses is complex as it depends on variables such as how it's used.

In this simple overview we've focused on the most common motoring expenses and whether the VAT can be claimed back or not. This is subject to the business' normal partial exemption position and the guide focuses on expenditure for business purposes.



## Definition of a car

In order to claim the VAT back on motoring expenses, it is important that the vehicle complies with this HMRC definition.

For VAT purposes a car is any motor vehicle normally used on public roads which has 3 or more wheels and either:

- ✓ is constructed or adapted mainly for carrying passengers
- ✓ has roofed accommodation to the rear of driver's seat that's fitted with side windows or that's constructed or adapted for the fitting of side windows

Note that the following are not classified as cars for VAT purposes when claiming back motoring expenses:

- ✗ vehicles capable of accommodating only one person or suitable for carrying 12 or more people including the driver
- ✗ caravans, ambulances and prison vans
- ✗ vehicles of not less than 3 tonnes unladen weight
- ✗ special purpose vehicles, such as ice cream vans, mobile shops, hearses, bullion vans, and breakdown and recovery vehicles
- ✗ vehicles with a payload of one tonne or more



## Recovering the VAT charged when buying a car

As a general rule, you can't recover the VAT on a car's purchase, even if you intend for it to be used 100% for your business.

This is because, if the car is insured for both business use and social/ domestic/ pleasure use, HMRC will automatically assume it's "available for private use" and so VAT can't be recovered.

When a car is insured only for business use (which is quite hard to achieve) it will still be regarded by HMRC as "available for private use". To challenge this and claim an exemption that the car is used exclusively for business purposes and only ever used for business journeys, you will have to be able to demonstrate an impediment to private use.

An example here would be to insist the employee(s) confirms in writing that they won't use the car for private use. This confirmation needs to be subject to disciplinary proceedings if they fail to abide by the prohibition.

### Exemptions

There are exemptions for cars which are stock in the trade of a motor manufacturer or dealer, or those intended to be used primarily as a taxi, driving instruction car, or self-drive hire. Contact our VAT specialists for more information if this applies to your business.

With 'pool' cars of a business, you can recover the VAT incurred as long as the car is:

- normally kept at the principal place of business and not kept an employee's home
- not allocated to an individual.



## Recovering the VAT when leasing a car including short-term rentals

If your business leases a car for businesses purposes, you cannot normally recover 50% of the VAT charged.

This 50% block reflects the likely private use of the car. You can, however, reclaim the remaining 50% of the VAT charged, subject to the normal rules - see [VAT guide \(Notice 700\)](#) the VAT guide and [Notice 706: partial exemption](#). The invoice from the leased company should confirm that only 50% of the VAT is recoverable.

For cars leased for taxi or driving instruction, you can reclaim all of the VAT charged on the lease.

### Daily rentals

If you are hiring a car for self-drive hire/ daily rental, the 50% block usually applies from the first day of hire.

The 50% block applies if the car is hired to replace a company car that is off road.

Continued overleaf



# Claiming VAT on motoring expenses

## Daily rentals continued

In other situations, the VAT is not blocked and is recoverable in full (subject to the normal VAT recovery position of the business).

This applies when, you do not have a company car and you hire a car for no more than 10 days to use specifically for your business.

An example here would be a business trip which involved you flying to the nearest airport and picking up a hire car, then drive to the meeting's premises. In a situation like that the VAT is recoverable in full.



## VAT on extras added to the car

As we mentioned on the previous page, as a general rule, you can't recover the VAT on a car's purchase.

This also applies to any accessories fitted to it at the time of purchase even if the car dealer itemises them on the sales invoice or invoices them separately.

This is because HMRC regards the accessories as forming part of the supply of a car.

## Buying the accessories later

If you buy accessories later and the vehicle is either:

- owned by the business or
- used in the business but not owned by it (perhaps an employer or director's own car)

... the VAT charged cannot be reclaimed unless the accessory has a business use.



## VAT on repairs and maintenance

- ✓ If you use the vehicle solely for business purposes, you can reclaim the VAT you were charged on repairs and maintenance but only if the business paid for the work.
- ✗ If you're a sole proprietor or partner and use the vehicle for your own private use, you cannot reclaim the VAT on repairs.



## VAT and private use charges on vehicles owned by the business

If you have recovered 100% of the VAT on a car and then put this into private use, you may have to account for VAT.

This does not apply if the car has been subject to the 50% block because the block already factors in private use of the car.

If an employee doesn't pay the business anything for the use of the car, you must account for VAT on the cost of making the business vehicle available for private use.

The cost here usually factors in depreciation, repairs and other running costs, but not any VAT you have recovered as input tax.

If your employee pays a charge for the private use of the car or other vehicle, you must also account for VAT on these charges.

Where VAT is due, it should be included in the VAT return in the normal way.



## VAT and electricity for charging electric vehicles

- ✓ VAT incurred by your business when charging electric vehicles can be recovered on the business use of those vehicles. To do so the vehicles have to have been charged at work or at public charging premises.

- ✓ You can also recover the VAT for charging your electric vehicle if you're a sole proprietor or a partner in a partnership business. In this instance you can charge your electric vehicle for business purposes at home.

Note, HMRC will expect you to work out how much of the cost of charging your electric vehicle is for business use and how much is for private use by keeping mileage records.

## Employees charging an electric vehicle which is used for business at a public charging point

If an employee charges an electric vehicle (whether a company vehicle or not) at a public charging point, the supply of electricity is seen to be made to the company or employer. The business can therefore recover the VAT on the cost of charging the electric vehicle.

Again, the business must keep detailed mileage records to work out how much of the charging cost is used for business and private purposes where applicable.

## Employees charging an electric vehicle which is used for business at home

In an employee charges an electric vehicle (whether this is a company vehicle or not) at home, the employer is not currently entitled to recover the VAT on the cost of charging the electric vehicle.

### Watch this space!

HMRC is currently reviewing its stance on the VAT position where employees charge an electric vehicle at home for business purposes.

It is also considering other simplification measures to reduce administration when accounting for VAT on private use.

Continued in next column



## Claiming VAT on motoring expenses



### VAT and road fuel

You can claim all the VAT on road fuel, if your business funds:

- fuel solely bought for business motoring
- both business and private motoring as long as you apply the appropriate fuel scale charge (see right) or account for VAT on the value of supplies of fuel for private use

If your business funds both business and private motoring and you wish to recover some of the VAT, but do not want to apply the fuel scale charge you must keep detailed mileage records to enable you to work out how much fuel is used for business and private motoring. See an example calculation in [9.5 Working out the VAT on business mileage on gov.uk](#)

### Road fuel paid for by your employees

If you reimburse employees for the road fuel they've used for business purposes, you can claim the VAT back. In doing so, you must be able to show you have reimbursed them for road fuel expenditure.

If your employees have fuel for both private and business use, you need to account for the VAT using the fuel scale charge (see right) or the value.



### VAT and mileage allowances

Businesses usually work out the VAT on the fuel element of mileage allowances using the fuel scale charge tables.

If they're paid a mileage allowance each of your employees must have records showing:

- the mileage travelled
- whether the journey is both business and private
- the cylinder capacity of the vehicle
- the rate of mileage allowance
- the amount of input tax claimed



### Documentation

Businesses must keep invoices unless their employees buys the road fuel using fuel card, credit card or debit card provided by you as the employer.

You can recover VAT where road fuel is delivered to your employees and paid for by them on your behalf for use in your business.

You must reimburse your employees for the cost of this fuel either on the basis of actual cost or by means of a mileage allowance.

### The fuel scale charge

The scale charge helps businesses account for VAT on road fuel bought for its cars, but which are then driven for private use.

If your business uses the scale charge, you can recover all the VAT charged on road fuel without having to split your mileage between business and private use.

The charge is calculated via a flat rate basis according to the carbon dioxide emissions of the car. 10.2

Use the [fuel scale charge table](#) for the relevant accounting period.

### Summary

Reclaiming VAT on motoring expenses is complex.

In this guide, we've covered common motoring expenses with the aim to give you a simple overview.

Do however seek advice and information specific to your organisation's circumstances and contact Nancy Cruickshanks and Shipleys' VAT team for more information.

