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Electric or low emission cars

Funding

The initial costs of electric vehicles may seem prohibitive, however the Government aims to offset some of the upfront cost by providing special plug-in electric vehicle grants when purchasing a new vehicle.

Grants can be worth up to 35% of the purchase price of a new electric car, up to a maximum of £8,000. These are often recognised by dealers in their pricing.

Details of eligible vans can be found at <https://www.gov.uk/plug-in-car-van-grants>.

Government grants are available to both home owners and work places to provide charging infrastructure for electric vehicles.

The Electric Vehicle Homecharge scheme will provide up to 75% (capped at £500 inc VAT) off the total capital costs of a chargepoint and installation costs. To be eligible, drivers must have available driveway space and be able to prove ownership, have a vehicle on order or have primary access to a vehicle (i.e via an employer).

The Workplace Charging Scheme is a voucher-based scheme allowing applicants to claim up to 75% of the purchase and installation costs, capped at £500 (inc VAT) per socket up to a maximum of 20 sockets across all sites. Restrictions can apply based upon previously received public support, although this does not affect the rural sector. Further information can be found at <https://www.gov.uk/government/publications/workplace-charging-scheme-guidance-for-applicants-installers-and-manufacturers>



Capital Allowances

For cars bought from April 2018, there is the potential for the costs of purchase to qualify for generous tax reliefs against business profits:

New and unused cars with CO₂ emissions of 50g/km or less will qualify for a First Year Allowance of 100%, whilst new or second hand cars with emissions of 100g/km or less will qualify for an allowance 18% per year.



Electric car charging points will also qualify for First Year Allowances (FYA) at 100% of the cost. There is no annual limit on FYAs.

For unincorporated businesses, all the above allowances will be reduced by reference to any non-business use. For corporate businesses, any private use by an employee will not affect the allowances.

Benefit in Kind

Employer provided owned car

The availability of an electric car is treated as a taxable benefit in kind and the benefit is calculated in the same way as that for a petrol or diesel car:

(List price of car + cost of accessories) x the emissions-determined rate.

For electric cars in 2020/21 this rate will be 0% making the benefit tax free, although the rate will increase by 1% per annum for the following two years giving rates of 1% in 2021/22 and 2% in 2022/23.

For pure electric cars, electricity is not classed as fuel by HM Revenue & Customs therefore there is no benefit in kind for electricity supplied by the employer; a vehicle charging point installed at the employee's home; or a charge card allowing the employee access to commercial or local authority charging points.

Alternatively employees can be reimbursed up to 4p per mile tax free for business mileage driven using an employer's car where the employer does not pay for the electricity to charge the car.

For hybrid electric cars the same fuel benefit rules as traditionally powered cars apply.

Employee owned car

For both pure and hybrid electric cars the standard approved mileage allowance payments of 45p per mile for the first 10,000 miles and 25p per mile for any additional miles can be paid to the employee tax free.

However the following are considered taxable benefits in kind based on the cost to the employer:

- Charging point installed at employee's home;
- Charge card allowing access to commercial or local authority charging points; and
- Paying to lease a battery for the employee's car

Vans

Electric vans, like petrol and diesel vans, are not a taxable benefit if the van is only used for business journeys and ordinary commuting.

Otherwise there is a standard value for the van benefit in kind. This is currently lower for electric vans however the values are being aligned. For 2020/21 it will be 80% of the value for a traditionally powered van and for 2021/22 it will be 90%; rising to be the same in 2022/23.

Salary sacrifice for employees

Although there were reforms in the available salary sacrifice schemes announced back in 2016, pure electric vehicles are eligible for tax benefits if purchased through a salary sacrifice agreement made between an employer and employee. For higher rate tax payers, this can reduce the monthly payments by 42% (dependant on individual circumstances), in addition, the employer saves on the reduced National Insurance liability on the sacrificed salary.

VAT

The VAT position is the same for electric and low emission cars as for diesel and petrol cars.

Leasing

If the car is leased and CO2 emissions are below 110g/km the full rental expense is eligible for tax relief by a deduction from profits.

For cars with CO2 emissions above 110g/km 85% of the rental expense can be deducted from profits.



Does this topic raise any questions in your mind?

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