

abell morliss

Revised Company Car Tax Rules commencing 6.4.2002

Points:-

- The Chancellor decided that it was time to get all those gas guzzlers polluting the sylvan lanes of England off the road so ministers cars could get through, and do himself a favour in the process.
- Accordingly the old system of taxing cars according to a mix of engine size, with discounts for high mileage business users has been binned.
- The new scheme taxes company cars on basis of emissions. However after deciding this he noticed that diesel cars don't pollute as much on the measurement system adopted, so he awarded diesel cars a surcharge of 3% just to 'even' things up.
- Essentially perk cars are back and business users just get hammered because they don't have a choice about using their cars for business.
- There will be a great increase in use of the Fixed Profit Car mileage rates published by HMI T as these will be a better way for many as there is no tax consequence of using them, and modest record-keeping is required.
- The biiiiiiiig drama in shifting to mileage claims is buying the car!!! Some employers will lend staff the funds to buy their company cars, others will have to use the £5,000 loan rule to get round the problem. Essentially employees/Directors can be lent up to £5,000 by their employer without a taxable benefit arising – don't ask why. Also the loan is ignored by Companies House despite it being banned under company law!

J Malcolm Swallow FCA
Abell Morliss Ltd.
t/a Abell Morliss

Abell Morliss
Chartered Accountants

5 Ardmore Road, South Ockendon, Essex, RM15 5TH
Telephone 01708 855275 Facsimile 01708 670068
Email abell@chartered.org Visit <http://www.chartered.org>
VAT 735 498 594



. Examples (using 04/05 scales): -

<u>Car Detail</u>	<u>Old Rules</u> <u>to 01/02</u>	<u>New Rules</u> <u>04/05</u>
Rover 2.0 75 Club SE NEW saloon manual		
List price	19,400	
cc.	1,997 v6	
CO ²	232	
Annual mileage - 21,000 business		
Ditto - private 4,000		
Taxable benefit value	£ 2,910	£6,402
Fuel benefit	£ 2,460	£ 4,752
TOTAL	£ 5,370	£ 11,154
Increase ->		108% in 3 years

<p>Mileage basis claim on new rules 6.4.02+</p> <p>e.g. this car 2 services pa.</p> <p>Bits falling off</p> <p>Depreciation</p> <p>Interest on loan</p> <p>Insurance/ Road fund</p> <p>Fuel</p>	<p>6,750</p> <p>£400</p> <p>£250</p> <p>£4,000 over three years own</p> <p>£1,000 three year loan</p> <p>£1,000</p> <p>£2,650</p>	<p>This is the amount you can claim in cash from your employer without any tax bill. This figure therefore has to be compared to your running costs of the car to decide if you might be better off this way</p> <p>Remember the benefit 'costs' you at your normal tax rate (40% for Abell Morliss clients)</p> <p>The user achieves a good result by taking the car private and claiming mileage from their employer</p>
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<u>Car Detail</u>	<u>Old Rules</u>	<u>New Rules</u>
Rover 2.0 75 Club SE saloon manual		
List price	19,400	
cc.	1,997 v6	
CO ²	232	
Annual mileage - business	2,000	
Ditto - private	23,000	
Taxable benefit value	£ 6,790	£6,402
Fuel benefit	£ 2,460	£ 4,752
TOTAL	£9,250	£11,154
Increase ->		21% over 3 years

Mileage basis claim on new rules 6.4.02+	800	This is the amount you can claim in cash from your employer without any tax bill. This figure therefore has to be compared to your running costs of the car to decide if you might be better off this way....
e.g. this car 2 services pa.	£400	
bits falling off	£250	
Depreciation	£4,000 over three years own	
Interest on loan	£1,000 three year loan	
Insurance/ Road fund	£1,000	
Fuel	£2,650	
In this example the user is significantly better off having a perk company car, unless of course lies are told about the number of business miles travelled per annum?		

ACTION AREAS

- Why not get a luxurious van with a benefit of only £500pa.?? This will be an attractive option for genuine high mileage business users, until the Revenue plugs the gap in 2005 or 2006.
- <http://www.inlandrevenue.gov.uk/pdfs/ir172.htm> for the tedious rules in full civil-servant speak.
- Mileage payments over the approved scale of 40p/mile for first 10,000 business miles p.a. are taxable so don't pay 60p per mile!!
- Any mileage over 10,000 miles may only be paid at 25p per mile
- Consider claiming for business mileage if you have high business miles, but still having the company car - halfway house? This avoids the penal fuel benefit scales
- Persuade your helpful employer to buy you a gleaming new car, and declare it as a company car. Then 6 months later ask to buy the car from your esteemed employer at its then market value - about 1/3 off esp. if the ashtray needs emptying. This will maximize tax relief on the car to your employer, and you get to buy the car at a massive legit discount. You only pay a taxable benefit for the small period of 6 months.
- Special deals with HM I T are not possible
- Don't forget employers NIC at 12% on the benefit figures as well!!!
- Don't forget that VAT comes into the equation just to muddy the waters further. On the mileage claims you can only recover 12p per mile as VAT-relevant.
- In favour of company cars still is that your esteemed employer picks up the tab for everything! So when you get a specialist garage to diagnose that rumble from the lhs gnurdler wingler that costs £4,000 to fix it's not your problem!! So perhaps run an older car that breaks down all the time, but is luxurious when it runs.
- Second cars for family members in small companies no longer get caned so get a fleet for your wife, mistresses, teenage daughters, boyfriends and then insure the lot on a fleet policy and save loads of tax - perhaps?

