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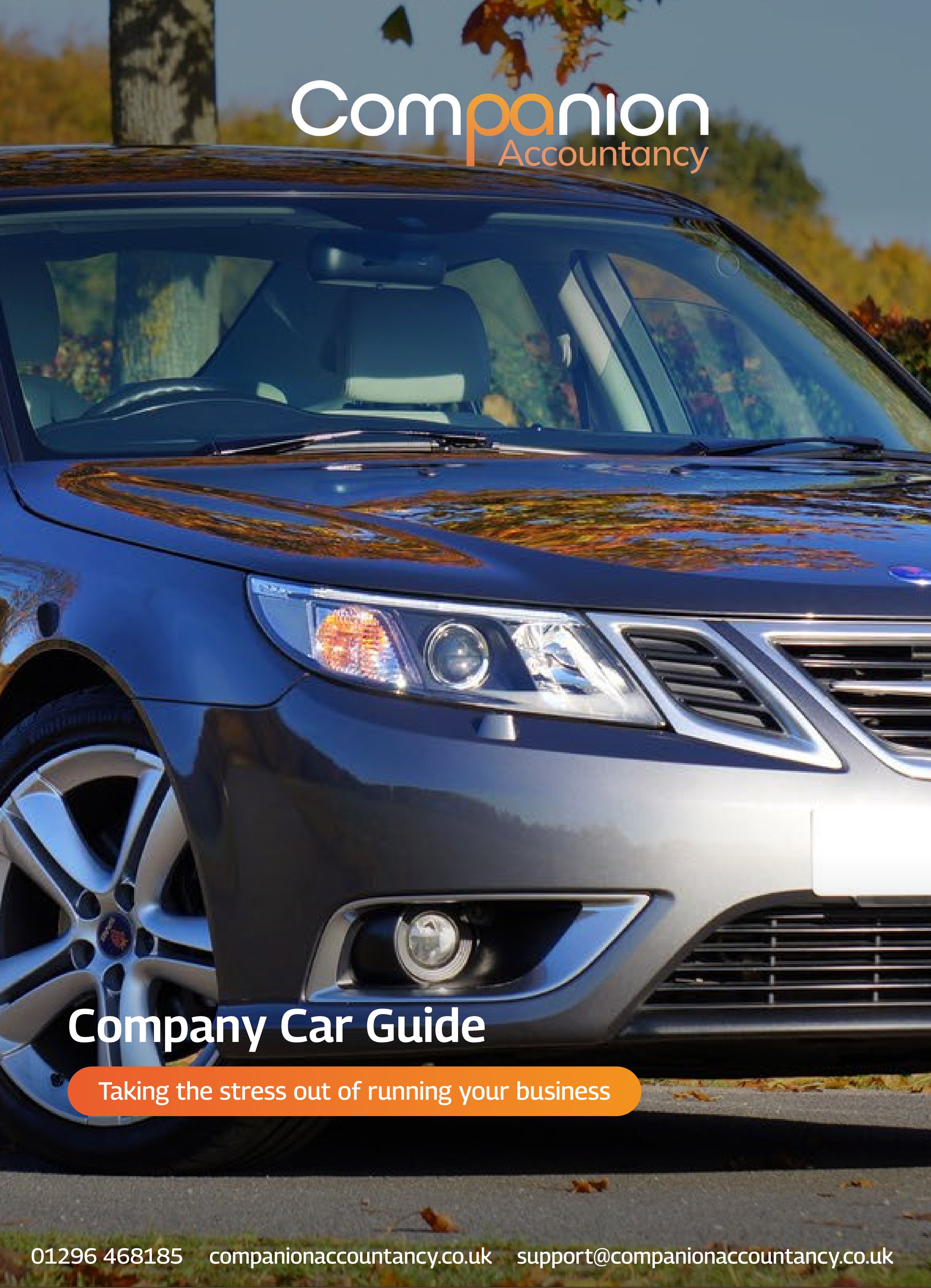

Company Car Guide

Taking the stress out of running your business

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Company Cars For Contractors - are they a good idea?

Most contractors have to travel to work, often to a wide range of temporary workplaces, so it's no surprise that we get so many questions about the best way to deal with business motoring costs. Well, fasten your seatbelt, set your mobile to silent and keep your eyes on the road ahead, because here comes our simple, plain language guide.

Can your limited company provide a company car?

The short answer is yes. If you so choose, your company can buy and run a company car. The cost of buying the car can be claimed through capital allowances, and the running costs as expenses, which will reduce your company's Corporation Tax bill.

However, these days, a company car can be quite expensive for you personally, and it may not be the best idea when you consider the overall tax position.

The downside:

If you use your company car for any personal journeys, including commuting, it counts as a taxable benefit in kind (BiK) so you would need to complete a P11D and pay income tax on the value of the benefit. Your company will also have to pay Class 1A National Insurance, which is 13.8% of this value.

To calculate the tax on your company car:

List price X BiK rate = taxable value.

You will pay tax on this value at your marginal rate, which is usually 20% or 40%.

Example

Imagine your company car has a list price of £30,000 and CO_2 emissions of 103g/KM.

List price: £30,000

BiK Rate: 25%

Taxable Value: £7,500

Income tax (20% tax payer): £1,500/year

Income tax (40% tax payer): £3,000/year

Class 1A NICs Paid by company: £1,035/year

If your company pays for fuel:

If your company pays for fuel costs as well, this attracts a further taxable benefit in kind. The standard value set by HMRC is £27,800 (2024/25) and it's multiplied by the BiK rate in the same way as the car's list price.

To continue with the same example

If your company pays for fuel, the additional annual costs would be:

Car Fuel Benefit Charge: £27,800

BiK Rate: 25%

Taxable Value: £6,950

Income tax (20% tax payer): £1,390/year

Income tax (40% tax payer): £2,780/year

Class 1A NICs Paid by company: £959.10/year

If you're a 40% tax payer and your company pays for fuel, the total tax cost is £7,774.10. It's also worth noting that these are not one-off costs but must be paid every year for as long as your company provides the car to you. Assuming no increases in tax or changes to BiK rates, in this example, a higher rate tax payer would pay £23,322.30 in tax over just three years

How to Reduce the Cost of Your Company Car

If you're thinking that running a company car looks rather expensive, then we agree with you. So, is there anything you can do to reduce the cost?

Go for a less expensive car

Take a moment to ask yourself: do you really need a large, powerful car with a prestigious badge? Is there a genuine business reason to invest heavily in your company vehicle? There could be—perhaps projecting a specific image is essential for your business, and the car you drive plays a role in that. However, for those who don't need the status symbol, opting for a more modest vehicle might be wise. A lower list price means you'll pay less tax.

Reduce your CO2 emissions

Lower emissions give you a lower BiK rate, which will reduce the amount of tax you pay on your company car. Again, do you need the big powerful engine, or can you manage with something smaller and more economical?

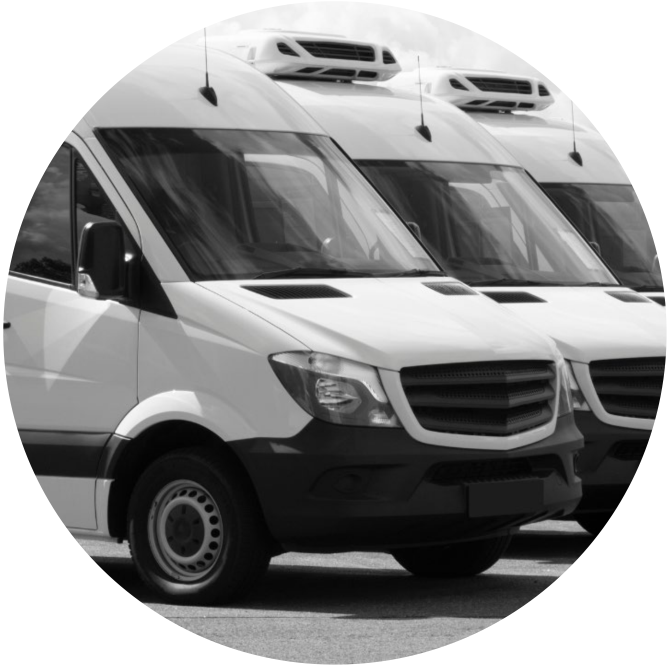
It might also be worth considering an ultra-low emissions car. Cars with the lowest CO2 emissions - including those using hydrogen fuel cells, electric cars and plug-in hybrids - attract the lowest BiK rates.

Choose the right fuel

For diesel cars, the BiK rate is usually 3% higher than for petrol cars, and a 4% surcharge is applied on diesel models that fail to meet the "Real Driving Emissions" targets. It's possible that contractors who drive a lot of miles might still be better off with diesel, due to fuel economy, but low-mileage drivers will definitely be better off with petrol.

London Congestion Charge

Electric cars, plug-in hybrids and others with CO2 emissions of less than 75g/KM qualify for a 100% discount on the London Congestion Charge. This won't make a difference to everyone, but if you regularly have to travel into Central London, this could be a significant saving.



Buying and Running a Company Van

If you're buying a company van rather than a car, the rules are slightly different. Your company can still offset the cost of buying and running the van to reduce Corporation Tax. If your company is VAT registered, it can also reclaim the VAT on the purchase of the van.

Example

The taxable value for benefit in kind is taken as a standard value of £3,960 (2024/25) rather than varying by the list price and CO2 emissions, so the annual costs are:

Income tax for 20% tax payer: £792.00/year

Income tax for 40% tax payer: £1,584/year

Class 1A NICs paid by company: £546.48

The taxable value of fuel, if your company pays is set at £757 (2024/25), so:

Income tax for 20% tax payer: £151.40

Income tax for 40% tax payer: £302.80

Class 1A NICs paid by company: £104.47

What counts as a van?

A van is defined by HMRC as: "A vehicle of a construction primarily suited for the conveyance of goods or burden (excludes people)".

The important detail is how the vehicle was constructed, not how it's used. So, even if you take the seats out of your people carrier and use it to carry goods, it still doesn't count as a van.

Following the Autumn Budget 2024, double cab pick-up (DCPU) vehicles will once again be classified as cars for tax purposes.

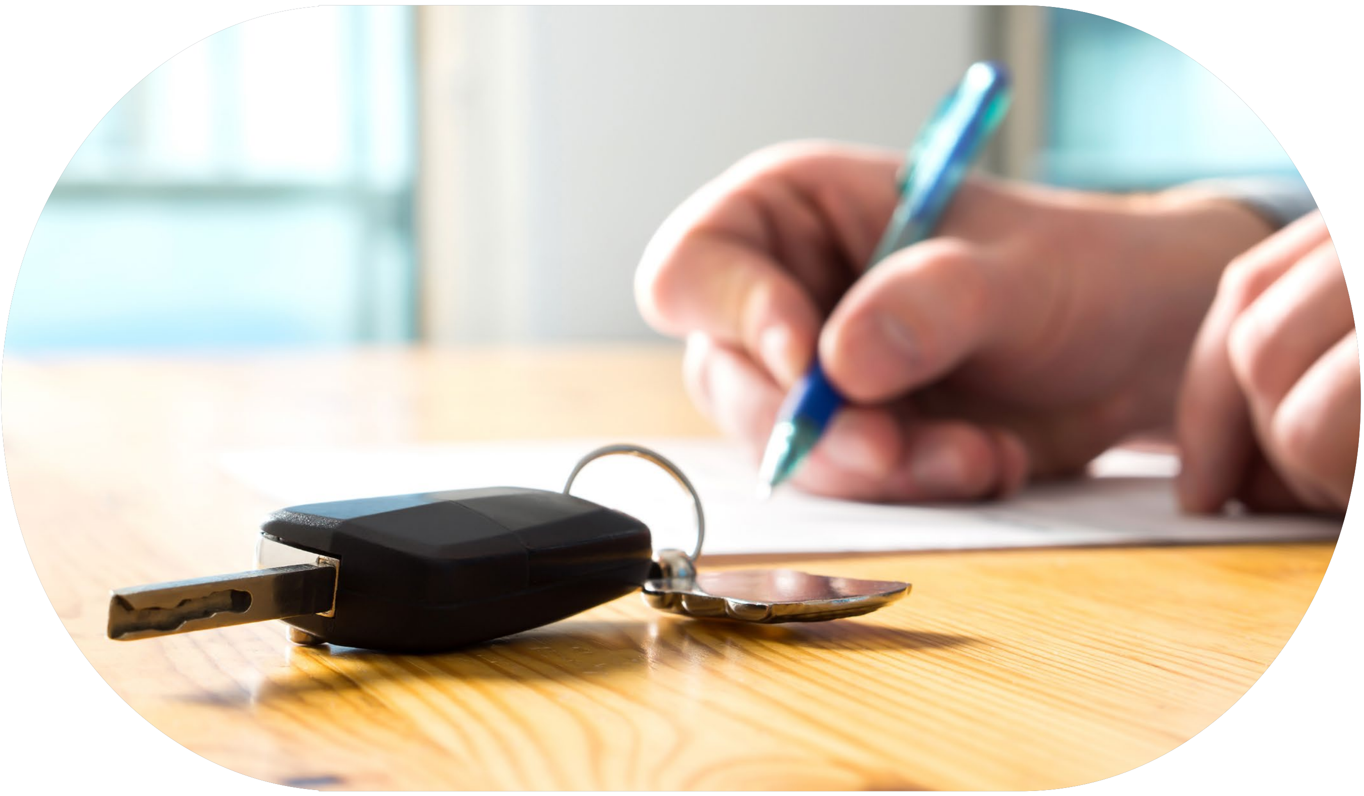
Using your personal car

If the company car option is looking a bit too expensive for you and you don't like the idea of using a van, you might want to consider using your personal car instead.

When you use your personal car for business journeys, your company can reimburse you tax free for your mileage. The rate for a car or van is £0.45/mile for the first 10,000 miles in each tax year, and £0.25 after that.

The mileage rate is intended to cover all the costs of using your personal car for business, including fuel, wear and tear, and repairs. Your company can claim tax relief on the cost of your mileage.

Of course, this means buying the car from personal funds, which you're likely to have paid tax on – either as salary or dividend when you extracted them from your company – but it's still likely to cost less because it's a one-off cost, rather than an annual one.



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