



## THINKING OF USING AN ELECTRIC VEHICLE AS A COMPANY CAR IN 2022 ? – WHAT ARE THE KEY BENEFITS ??

### BACKGROUND

The purchase of motor vehicles, especially cars, through a limited company has always been a favourite of business owners !

However although previously very popular among business owners and company directors, it has declined in popularity in recent years due to the increasingly large amount(s) of tax charged on cars by HMRC.

Now though, due to discussions around climate change, there has been a shift in Government policy towards company cars – **BUT only if they are electric vehicles !** This has resulted in a much more favourable taxation approach to company cars, as a means of encouraging the use of electric vehicles more widely in the UK.

So should you now be considering purchasing a company car that you can also use on a personal basis – as well as for business purposes – once again ?

### KEY ISSUES

Given it is a fairly recent tax change, there remain some uncertainties that will be resolved as the market for electric vehicles increases and more businesses start to choose them as company cars.

However, the key issues to be aware of when purchasing an electric vehicle are as follows:

#### 1. GRANTS

- There are still some grants (of up to £2,500) provided by the Government towards the cost of buying a NEW (only) low-emission vehicles – **where they are priced under £35,000.**
- Where it is applicable (**please note that there are typically various terms and conditions that apply**), the grant will be given to the car dealership, with the overall price of the vehicle adjusted for the purchaser at the car sales showroom.

#### 2. PURCHASE COSTS [AND CAPITAL ALLOWANCES]

- For the purchase costs of a vehicle incurred on or after 1 April 2021, there are capital allowances available for a **NEW car (only)** - which means that the company can offset the purchase cost of the vehicle against its business profits.
- This applies to a vehicle that is an '**electrically-propelled**' car or which has zero CO2 emissions. [**An 'electrically-propelled' car is a car that is propelled solely by electric power (i.e. it is an AEV)**]
- Where the car is electric or has zero CO2 emissions, then **up to 100% of the purchase costs can be offset** against its business profits in the year it is purchased.

- Company cars with emissions that are **NOT electric or at a rate of zero emissions**, can only be offset against business profits at a much lower rate e.g. **18% and NOT 100%**

**See table below !**

*Expenditure incurred on or after 1 April 2021*

Type of car	Emissions	CAs
New	Electric	100% FYA
New	Zero	100% FYA
New	CO2 1g/km to 50g/km	18% WDA
New	CO2 more than 50g/km	6% WDA
Used	CO2 up to 50g/km	18% WDA
Used	CO2 more than 50g/km	6% WDA

### 3. VAT

- There are **NO** special VAT rules for electric vehicles, so the **general rule is that VAT CANNOT** be recovered on the purchase of a car.
- Although there can be some limited circumstances in which VAT may be recovered (this can be reviewed based on your specific circumstances), given the vehicle will be used for some personal or non business purposes - **the general rule applies**.
- **PLEASE NOTE** - It is a common misconception that special rules apply to allow VAT to be recovered in full on the purchase of an electric car.

### 4. BENEFIT IN KIND [BUSINESS & PERSONAL USE OF THE VEHICLE]

- Unless the circumstances are that there will be **NO personal use** of the vehicle at all (in which case it is likely to be a 'pool car'), as the vehicle is in the ownership of the company, this means that there will be a '**benefit in kind**' charge for the director or employee using that vehicle
- This is generally dealt with through an annual P11d return to calculate and ensure that HMRC's '**value**' of that personal use is taxed on the director or employee
- However the benefit of an electric vehicle, is that Zero and low emission cars (**CO2 emissions between 1g/km and 50 g/km**) benefit from a significantly lower '**benefit in kind**' (BIK) percentage compared to the typical petrol/diesel car.
- Although the benefit charge is typically it approximately 30% of the value of the car each year, with electric vehicles it is generally 1% i.e. on a £25,000 company car
  - for a **normal vehicle (car)** the annual amount to be taxed could be **£7,500**
  - for an **electric vehicle** the annual amount to be taxed is **£300** at the lowest 1% rate in 2021/22 – slightly higher in following years

C02 emissions	Electric range	2020/21 (1)	2021/22 (2)	2022/23 (3)
0		0%	1%	2%
1-50	130 or more	0%	1%	2%
1-50	70-129	3%	4%	5%
1-50	40-69	6%	7%	8%
1-50	30-39	10%	11%	12%
1-50	Less than 30	12%	13%	14%
51-54		13%	14%	15%
55-59		14%	15%	16%
60-64		15%	16%	17%
65-69		16%	17%	18%
70-74		17%	18%	19%

## 5. BENEFIT IN KIND [ELECTRICITY USE]

- There may also be some '**Benefit in kind**' (BIK) due on the electricity charges as part of the ongoing use of the vehicle (due to the personal usage), however this will generally be:

- the cost of the electricity

### LESS

- the amount that can be identified against specific business mileage

## NEXT STEPS

- From some of the discussions we have had with our clients, it is important to clarify that the purchase of an electric vehicle will **NOT** generate a huge '**tax benefit**' for the company, however it will be **significantly more tax efficient if you already have a company car or are considering the purchase of a company car !**

Purchase costs (or Capital allowances) – **100% recovered v's max 18%**

Benefit in kind (on employee) – **Avg £300 v's Avg. £5,000 per annum**

- If the electric vehicle is not purchased directly then the lease needs to be a finance lease – where the company own's the vehicle at the end of the term – for the purchase details to apply as per the above.

**Where you need more assistance with considering the purchase of an electric vehicle, then let the SAKURA Team know, and where necessary we can provide additional analysis of comparison costs where necessary.**

**We can also manage the preparation and submission of the annual P11d return(s) to report the benefit (tax charge) on the vehicle and/or the use of electricity to HMRC.**

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