

company cars:
a guide for drivers
and employers



Department
for Transport

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1 Introduction

A company car is potentially very cost effective for both employers and employees. On average, company cars are also newer, safer and have lower emissions compared to privately-owned cars used for business travel. But if you choose a car without understanding the cost implications, and how these vary across different vehicles, it could be an expensive decision.

When is a car a company car? For tax purposes, when an employer makes a vehicle available to an employee or their family and household for private use, it is classed as a company car. A company car might be required by your job or offered as a perk of employment but there may well be limits on choice in terms of safety and emissions. Cars that are provided for business use only, with private use specifically prohibited, are exempt from company car tax.

There are a number of costs related to a company car which differ for the employer and employee. These costs are lower for more efficient vehicles. Energy Saving Trust has produced this guide to help employees and employers make informed choices when it comes to company cars and avoid unexpected costs.

For employees the main considerations are:

- ✔ Company car tax - a tax which is payable on benefit-in-kind (BIK) based on the value of the car and its CO₂ emissions rating.
- ✔ Optional contributions required by your employer towards the cost of the vehicle which may reduce tax liability as a result.
- ✔ Private fuel expense and tax on any employer provided private fuel.

For employers, the above points are relevant as well as:

- ✔ National Insurance contributions linked to the benefit-in-kind for company cars and private fuel calculations, and therefore CO₂ emission ratings.
- ✔ Capital and lease rental allowances for company cars linked to CO₂ thresholds offering incentives for businesses that purchase and lease the cleanest vehicles.

This guide will explain how company car choices can reduce vehicle CO₂ emissions and fleet costs, without compromising on quality and choice.

2 Vehicle and fuel type

When selecting a vehicle it's important to consider the type of driving you will undertake and what vehicle and fuel type will be most suitable for your needs, not just in terms of reducing tax. Diesel cars attract more company car tax than petrol models with the same CO₂ emissions to reflect their impact on air quality. They usually have higher list prices and diesel is also more expensive per litre at the pump. Some urban areas are now discouraging the use of diesel vehicles due to charges such as the London T-charge, so ongoing costs such as this need to be considered.

Diesel cars generally have better fuel consumption than petrol models when vehicles of an equivalent size and performance are considered and are well suited for longer distance driving including motorway use. However, recent improvements in petrol engine technology and hybrid cars are challenging this belief,

and today the mileage threshold at which diesel becomes cost effective is higher.

Plug-in vehicles are becoming a more common choice as company cars in some organisations and will continue to do so as manufacturers increase their product offering. It's worth noting that whilst many plug-in hybrids have attractive MPG performance on paper, this is on the basis that they are charged frequently. If not, they can return fewer MPG in comparison to a conventional diesel car.

Pure-EV and plug-in hybrid cars are typically suitable for urban driving and medium distance rural driving. If you are considering a plug-in vehicle it's important to consider where you will recharge it taking its driving range into account.



3 Considerations for employees

When considering a company car it's important to understand the costs that are involved and how you can minimise these while getting the right vehicle for you.

Calculating company car tax

Company cars, like all employee benefits in kind, are taxed on a cash equivalent basis. Company car tax (CCT) is one of the main costs that a driver will incur and so understanding how this varies for different vehicles is crucial to help you make a cost-effective choice when choosing a vehicle. The cash equivalent is usually the cost of the benefit, excluding any contributions you pay to your employer.

For company cars the cash equivalent is a nominal value calculated by the following formula:

$$(A) \text{ the P11d value of car} \times (B) \text{ Appropriate Tax BIK rate/percentage}$$

The P11d value (A) comprises the vehicle's list price, including any optional fitted extras and VAT, plus any delivery charges. It does not include vehicle excise duty and first registration fees. If your organisation allows you to make a contribution towards the cost of your vehicle than this will reduce the list price – see Employee Contributions later on.

The appropriate Tax BIK rate or percentage (B) is determined by the car's CO₂ emissions and ranges from 13% to a maximum of 37% - check [online](#) for the current rates. For example, the percentage rate incurred on a petrol car with emissions of 149 grams CO₂ per kilometre (g/km) is 30% in 2018/19 tax year, almost 40% higher than the 22% rate on a car with emissions of 109g/km. You can check your current vehicle's CO₂ emissions on your P11D, prepared each year by your employer. It can also be found via the [DVLA's free online service](#) by typing in your registration number.

Online Calculators

These free online calculators can help you to assess some or all of the costs (although their accuracy cannot be verified by the Energy Saving Trust).

ccfcalculator.hmrc.gov.uk

– calculate company car tax and any private fuel tax liability

comcar.co.uk

– select a car and calculate company car tax and any private fuel tax liability

fuel-economy.co.uk/calc.shtml

– input your MPG and calculate the amount of fuel used and its cost for any given distance

Impact of vehicle emission on tax

Benefit-in-kind rate bands are tightened each year to encourage the uptake of cleaner vehicles both in the current year and over the life of the vehicle. For example, a driver choosing a petrol car in 2017 with CO₂ emissions of 105-109g/km would have paid BIK tax on 20% of the car's P11D value in 2017-18, rising to 22% in 2018/19 and 25% in 2019/20.

As tax bands tighten each year it is also important to factor in how much your new car will cost you in each year that you will be driving it, to avoid being caught out by increases. The Government usually confirms the percentages for the next few years during the Chancellor's annual Budget.

The higher the CO₂ emissions, the higher the percentage so choosing a more efficient car can reduce your tax liability. The lowest tax band for battery electric vehicles with zero emissions and for plug-in vehicles with emissions of no more than 50g CO₂/km is 13% in 2018/19 rising to 16% in 2019/20.

From 2020/21 the rate will then fall to 2% for vehicles with zero emission and plug-in vehicles with emissions of no more than 50g/km CO₂ and an electric driving range of 130 miles or more. There is also a 4% supplement for diesel cars (not including vans) which do not meet the new Real Driving Emissions Step 2 (RDE2) standards, which recognises the greater emissions of local air pollutants such as NOx emitted by diesel engines.

While it's clear that cleaner vehicles can offer considerable savings in terms of company car tax, it's important that you are able to plug the vehicle in to charge it and that your journey patterns are within the capability of the vehicle's electrical range if a battery electric vehicle (BEV) or will allow a significant amount of driving using electricity if a plug-in hybrid.

To provide a comparison, the below table shows the three year total cost of company car tax for four different vehicles with typical emissions; 111g/km for diesel and 134 g/km for petrol.

Company Car Tax 2018-2021

This graph compares the total cost of company car tax over 3 years (April 2018 - March 2021) for different vehicle types with typical emissions.



The calculations are based on the following emission rates of 111g/km for diesel, 134g/km for petrol and 44g/km for PHEV and EV, and P11d Values of £31,505 for diesel, £28,795 for petrol, £35,565 for PHEV and £35,515 for EV. Assumes diesel does not meet RDE2 emissions standard and an employee marginal tax rate of 20%.

EV – Electric vehicle, PHEV – Plug-In Hybrid Vehicle

Employee contributions

In some organisations, drivers make a contribution towards the cost of their company car and their tax liability is reduced as a result. There are two types of contribution:

1. A capital contribution(s), typically paid by the employee to have a more expensive car than the organisation is offering. In this case, the contribution(s) is subtracted from the list price and you are taxed on this lower value up to a maximum of £5,000.

For example, a car has a list price of £18,000 and an appropriate percentage of 19%, and you contribute £3,000 towards the vehicle. Without the contribution, the annual tax liability of a lower rate tax payer would be $£18,000 \times 19\% \times 20\% = £684$. However, after the contribution is included, your tax liability will be $£15,000 \times 19\% \times 20\% = £570$.

2. Monthly or annual payments made towards private use. In this case, your contribution is multiplied by your income tax rate, and the result is deducted from the company car tax you would otherwise pay.

For example, suppose you are required by your employer to pay £900 a year towards the cost of a car with a list price of £18,000 and an appropriate percentage of 19%. For a lower rate tax payer, 20% of £900 is deducted from your company car tax, i.e. $(£18,000 \times 19\% \times 20\%) - (£900 \times 20\%) = £684 - £180$. This means you would pay £504 a year.



4 Fuel expenses for employees

Employee fuel expenses come in two main forms; private fuel costs and employer-provided private fuel

Private fuel costs

Understanding the relationship between CO₂ emissions and fuel cost will help you make a financially informed choice when selecting a vehicle. As CO₂ emissions are a direct result of consuming fuel, the higher the car's CO₂ emissions the more fuel is consumed – i.e. the vehicle's miles per gallon (MPG) performance is worse. However, the actual fuel consumption will depend on driving style.

The table below highlights the potentially large cost savings on fuel over 45,000 miles between a petrol or diesel car, a regularly charged PHEV and a pure electric vehicle. This highlights the large cost difference between a petrol or diesel car, a regularly charged PHEV and a pure electric vehicle. In this example the petrol or diesel vehicle is achieving 45mpg (54.5 NEDC) with an averaged fuel cost of £1.20.

Comparison of fuel costs over 45,000 miles



Note — BEV – Battery-only electric vehicle, PHEV 75% – Plug-in Hybrid electric vehicle, driven for 75% of the time on the battery, PHEV 25% – driven for 25% of the time on the battery. Assumes petrol or diesel vehicle achieving 45mpg with an averaged fuel cost of £1.20.

Employer-provided private fuel

Some employers offer their employees what is sometimes misleadingly referred to as ‘free private fuel’. For many company car drivers this is often not a benefit at all and you’ll need to work out whether this benefit is greater than the extra BIK tax that you’ll have to pay.

Instead of being taxed on the amount of fuel used, a nominal value set by HMRC - £23,400 in the 2018/19 tax year, is multiplied by the same appropriate percentage for company car tax to determine the cash equivalent of the benefit.

The worked example below for the Audi A3 Sportback shows the fixed cost (£23,400 x 21% x 40%) and the very high number of private miles required to make it worthwhile, particularly for a higher rate tax payer. If you think this benefit is costing you more money than it is worth, speak to your fleet manager about opting out as

your employer will also save by avoiding the National Insurance contributions due when providing free private fuel.

Finally, don’t confuse the use of a company fuel card with employer-provided private fuel. A fuel card is simply a way to pay for fuel, much like a corporate credit card. As long as you pay for all of your private fuel by reimbursing your employer, you will not be taxed for personal fuel used.

When you are reimbursed by your employer for business travel in a company car or when you have to repay the cost of fuel used for private travel, advisory fuel rates (AFRs) can be used. The rates are not binding so less can be paid, but detailed documentary evidence of actual fuel costs will be required if paying a higher rate or employees will be taxed on the difference between the appropriate AFR rate and the higher rate paid. Rates are updated on a quarterly basis and the latest rates and how they are calculated are available [online](#).

Audi A3 Sportback 1.0 TFSI SE Technik 116 PS 6-spd Manual. CO₂ 104 g/km, Fuel consumption 50MPG, petrol £1.20 per litre

Fixed charge	Tax rate	Annual Tax	Cost per 1,000 miles	Break-even mileage
£23,400	20%	£983	£109	9,000
£23,400	40%	£1,965	£109	18,000

Note — Calculations based on an appropriate percentage (Benefit-in-kind rate band) of 21%.

5 Considerations for employers

A well-designed scheme can minimise the costs and maximise benefits of company cars.

NIC Calculations

For fleet operators and managers it is important to understand the factors that contribute to the costs of company cars both for employees and the business to implement effective policy in terms of vehicle choice lists. The first part of this guide was aimed at employees but it is recommended that managers are also familiar with its content to ensure they are informed on the costs involved in addition to those borne solely by employers such as NIC and capital allowances.

The incentive for employers to encourage drivers to opt for more efficient vehicles is clear. For any organisation that provides company cars there is a direct cost in the form of Class 1A National Insurance contributions (NIC). As NIC are based on the same bands as company car benefit-in-kind calculations, this cost is also linked to CO₂ emissions. The same 4% supplement for diesels which do not meet the RDE2 standard is also applicable.

An employer’s Class 1A National Insurance contributions is based on the vehicle’s BIK tax band and its P11D value (the taxable benefit) and is currently applied at a rate of 13.8%, as shown in the below example.

Class1 National Insurance Contributions (2018-2021)

This graph compares total Class1 National Insurance Contributions over 3 years between different vehicle types.



The calculations are based on emission rates of 111g/km for diesel, 134g/km for petrol and 44g/km PHEV and EV, and P11d Values of £31,505 for diesel, £28,795 for petrol, £35,565 for PHEV and £35,515 for EV. It assumes diesel does not meet RDE2 emissions standard and an employee marginal tax rate of 20%.

Enhanced Capital Allowances

In addition to standard capital allowances available for company vehicle ownership, businesses are able to claim an Enhanced Capital Allowance (ECA) for low emission cars used for business related activities.

Battery electric vehicles and the cleanest ultra-low emission vehicles with emissions up to 50g/km of CO₂ qualify for a 100% First Year Allowance. Those up to 110g/km qualify for a writing down allowance at 18% per year. Those over 110g/km qualify for a lower "special rate pool" writing down allowance of 8% in a year. To qualify for the 100% First Year Allowance the vehicle must be new, otherwise they will attract the special rate allowance of 8% regardless. The enhanced allowance cannot be claimed by rental and leasing companies (including car clubs).

The rules are designed to incentivise the choice of cars emitting less CO₂, by allowing companies to offset a greater proportion of the value of the car against

their tax bill. Over a large fleet of vehicles, a significant benefit can be realised by promoting lower CO₂ models. Do pay close attention when selecting a car as different model variants and options such as automatic transmission and four-wheel drive where available could break the threshold.

Those leasing vehicles are also incentivised to choose those that emit less CO₂. The Lease Rental Restriction limits the rental payments that can be deducted from taxable profits for vehicles above 110g/km to 85%.

6 Promoting sustainable company car choices

The link between running costs, the emissions of vehicles, NIC contributions and capital allowances is clear and should act as an incentive for managers to encourage their drivers into the lowest emitting vehicle that is suitable for their needs.

It is increasingly common for organisations providing company cars to impose rules to guide employees on how to choose company cars which fit within these guidelines. When designing a choice list, consider the following:

-
✔ **Impose CO₂ caps to reduce overall running costs, reduce BIK tax liability for drivers and employers' National Insurance contributions.**
.....
- ✔ **Demonstrating how choosing a lower CO₂ car will generally result in lower overall costs for both drivers and the company.**
.....
- ✔ **Ensure the policy factors in the most fuel-efficient options for different staff roles and circumstances. High mileage motorway driving would probably be better covered in an efficient diesel whereas petrol-electric hybrids and new petrol technology are more suited for urban-based and low-mileage journeys.**
.....
- ✔ **The practicalities of including plug-in vehicles. Plug-in hybrids must be regularly charged to be efficient; charging at the workplace or home will generally be the most cost effective method and consequently plug-in vehicles may not be suitable for all drivers at all times.**

The task of encouraging drivers to choose a lower emitting vehicle is becoming easier. Improvements in engine technology, largely driven by the need of manufacturers to meet EU emissions targets has also seen an increase in the model range available and an improved specification of battery electric, hybrid and plug-in hybrid vehicles on the market with much lower official CO₂ emissions than equivalent cars a few years ago.

Getting senior level buy-in in terms of low emission vehicle choice sends a strong message to other company car drivers about how seriously their employer is taking its fleet carbon footprint and environmental impact. This will help ensure that these vehicles will be accepted throughout the organisation.

7 Conclusion

This guide has explained company cars and key considerations from the perspective of employees and employers.

Next steps

For employees the main considerations are:

- ✔ Company car tax - a tax which is payable on a certain percentage of the value of your car and based on its CO₂ emission rating
- ✔ Optional contributions required by your employer towards the cost of the vehicle which may reduce tax liability as a result
- ✔ Private fuel expense and tax on employer provided private fuel not covered by your employer

For employers, the above points are relevant as well as:

- ✔ National Insurance contributions linked to car CO₂ emissions
- ✔ Capital allowances for company cars linked to CO₂ thresholds offering incentives for businesses that purchase vehicles outright and opt for cars with lower emissions.

While there are many things to consider, company cars can prove to be beneficial for all parties provided the above factors are considered.

Guidance

Energy Saving Trust has produced a handy animation outlining the considerations for employers and employees when looking at different vehicle technologies.

https://www.youtube.com/watch?v=ok_ZCOFVuvM&t=431s

Further guidance on National Insurance Contributions, expenses, benefits and contributions can be found in the following documents:

[480: Expenses and benefits - a tax guide](#)

[Class 1A National Insurance contributions on benefits-in-kind \(CWG5\)](#)

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