

RULES OF THE ROAD

Steve Pritchett considers the P11D implications for company cars.

Paying tax on company cars can lead to confusion. The paperwork seems mind-boggling and rumours abound as to how it is calculated – the final figure can seem astronomical. However, working it out is quite straightforward. There is a set mathematical equation to find the tax payable, but there is a lengthy process to get that figure.

The benefit charge

A car provided by an employer is defined as a “perk” and as such

attracts tax and Class 1A National Insurance contributions (NICs). There is a false notion that the tax on this car benefit charge, as it is known, is based on the market value of the car, or that it decreases each year. This is not the case.

The car benefit charge is based on the list price set by the manufacturer. It does not matter if a deal has been done at time of purchase, as the list price is the figure that matters. Adding accessories will also increase the tax bill.

To enjoy a lower car benefit charge, a cleaner or cheaper car can be chosen. This is to encourage companies to choose cars which are less damaging to the environment. An employee can contribute to the original cost of the car (which will reduce the list price on which the benefit is calculated) or pay an amount for private use (which is deducted from the benefit).

The benefit charge can also be avoided if earnings, including benefits, are less than £8,500 per year, but most employees would not welcome such a reduction.

Calculating the costs

The car benefit charge is calculated in a series of eight steps and these have to be followed in sequence to get the correct final figure.

Step 1: The price of a car means its list price. The list price is the inclusive price published by the manufacturer, importer or distributor of the car if sold singly in a retail sale in the open market in the UK on the day before the date of the car's first registration. It includes standard accessories, relevant taxes (VAT, car tax, any custom or excise duty, etc) and delivery charges, but it excludes the new car registration fee because that is an administration fee, not a tax.

If there is no list price a notional price is used which is the price that might reasonably have been expected to be the list price if the manufacturer, importer or distributor had published a price (calculated as above).

For example, car A is priced at £15,480 on the road. It is made up of £14,655 list price (basic price plus VAT), £645 delivery fees, £125 annual Vehicle Excise Duty (VED) and £55 first registration fee. Its P11D value would be £15,300, ie list price plus delivery fees, but without road tax and first registration fee.

Meanwhile, car B is also priced at £15,480 on the road. Its manufacturer does not list a separate delivery charge, but the list price is stated as £15,275. It is subject to VED at £150 a year, and a first registration fee of £55. Therefore the P11D value is £15,275.

P11D values for most cars are available from online car information services, such as www.glass.co.uk and www.parkers.co.uk.

Step 2: Add the price of any optional accessories (mobile phones, phone kits and fitting costs are excluded).

Step 3: Deduct any capital contribution by the employee towards the cost of the car or qualifying accessories. This should not be confused with payments for private use of the car.

Step 4: Take the lower of the amount carried forward from step 3 and the upper limit of £80,000.

Step 5: Find the appropriate percentage for the car. These percentages are found in tables provided by HM Revenue & Customs (HMRC) in Booklet 480 *Expenses & Benefits*, Chapter 12 and are generally based on CO₂ emissions, which again can be obtained online.

Step 6: Multiply the figure at step 4 by the percentage at step 5.

Step 7: The figure from step 6 is reduced in proportion to the number of days of availability; that is for any period before or after the car was made available to the employee and any period of 30 days or more when the car is deemed to be unavailable. If a car is unavailable for less than 30 days any replacement car is not charged as a benefit unless it is materially better than the normal car.

If a car is shared, the benefit is apportioned between the employees fairly, but it cannot be shared with someone on whom the benefit is not chargeable (eg earnings under £8,500). **Step 8:** Deduct payments made by the employee for private use of the car, which can reduce the benefit charge to nil. Payments for supplies of services, such as petrol or insurance, do not count.

If the company also provides fuel for the car, there is an additional benefit charge calculated based on a fixed sum (currently £16,900) multiplied by the percentage from step 5 above, reduced for any period on unavailability as step 7 above. The charge is reduced to nil if all private

fuel is paid for by the employee. There is no reduction if the employee only contributes to the cost of private fuel.

Guidance from HMRC

After the P11D has been submitted, HMRC will either assess the employee on any additional tax payable or adjust their notice of coding. The employer is responsible for completing form P11D(b) and paying Class 1A NIC on the benefit. No NIC is payable by the employee.

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Working out the car benefit charge can be time consuming and errors can creep in if the calculation is carried out manually. Using relevant software can speed up the process and help prevent errors as the tables from HMRC will form part of the package. Simple inputting of the required figures will produce all the necessary information and subsequently print out the final figures.

For further assistance, an online calculator can be found by visiting www.hmrc.gov.uk/calcs/cars.htm. The HMRC website also provides full P11D information and guidance. A useful worksheet is available at www.hmrc.gov.uk/ebu/p11d-ws2-2010.pdf.

As usual with taxation issues, there are exceptions to the rule so it is recommended that the information is studied in much closer detail or a professional adviser is consulted.

Steve Pritchett is Finance Director at Frontier Software plc; www.frontiersoftware.com

