

BriefingNote

Tax position on business cars

The tax position on business cars (including hire cars and taxis) depends on a number of factors including whether the business is a company or an unincorporated business and also on CO₂ emissions.

Capital allowances

Low CO₂ emission cars (less than 110g/km) qualify for 100% allowances.

Other cars will fall within one of the two general plant and machinery pools:

- Cars with CO₂ emissions of 160g/km or less will be allocated to the main pool with writing down allowances (WDAs) at 20% (18% from April 2012) on a reducing balance basis
- Cars with CO₂ emissions over 160g/km will be allocated to the special rate pool with WDAs at 10% (8% from April 2012) on a reducing balance basis.

Very importantly, however, cars used partly for non-business purposes, eg proprietors' cars in unincorporated businesses, will be held in a single asset pool with WDAs dependent on CO₂ emissions, as above. This means that balancing adjustments on sale will still be in point which could give a significant cash-flow advantage.

Pre-April 2009 business-use expensive cars continue in a single asset pool until 2014, but with the new rates of WDAs. On a sale within that period a balancing adjustment will arise. Otherwise the written down value will be transferred to the appropriate pool.

Lease payments

No restrictions are applied to leasing costs of cars with CO₂ emissions of 160g/km or less.

For cars with CO₂ emissions over 160g/km there is a flat disallowance of 15% of the lease rental. For some cars this will represent a significant improvement over the previous list price based rules.

Just as a reminder, for vehicles under contract hire the disallowance does not apply to the maintenance charge.

Benefits in kind

Cars provided for employees are liable to tax on the benefit calculated by reference to list price and CO₂ emissions. In general, cheaper and low emission cars give rise to lower benefit charges and consequently lower employers' NIC costs thereon.

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Example

Below is an example of how the rules work for incorporated and unincorporated businesses.

The example is based on two cars, each with a cost/market value when new of £60,000, CO₂ emissions over 160g/km and proprietor's private use where one car is held for three years and then disposed of for £30,000 and the other continues to be held.

Capital allowances	Partnership		Company
	Car 1	Car 2	Pool 1
Cost	60,000	60,000	120,000
WDA year 1 (10%)	6,000	6,000	12,000
	54,000	54,000	108,000
WDA year 2 (8%)	4,320	4,320	8,640
	49,680	49,680	99,360
Sale	30,000		30,000
Allowances year 3			
Balancing allowance	19,680		
WDA (8%)		3,974	5,549
Total allowances over 3 years	44,294		26,189

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