

TAX TREATMENT OF BUSINESS CARS

Introduction

This article deals with the changes that have recently come into effect regarding the tax treatment of business cars, affecting sole traders, partnerships and limited companies.

We have produced this article for the Brown McLeod website as advice on company cars is one of the most popular subjects raised by clients.

Principle of the changes

The Government's stated aim is to attempt to utilise the tax system to encourage the use of more environmentally friendly cars, with a key emissions figure of 160g/km. Broadly speaking, a car with emissions below that figure will cost your business less but one with emissions above that figure could cost you much more, and there are even more generous rules for cars with ultra low emissions (i.e. below 110g/km).

The rules are different for leased and bought vehicles. Both sets of rules are outlined below.

Leased Vehicles

The old rules were such that lease costs for cars costing less than £12,000 were fully allowable and for more expensive cars, a formula was used which had the effect of allowing the portion of the lease relating to the £12,000 limit and half of the costs above that figure.

The new lease rules fall into two distinct categories, cars with emissions below 160g/km and those with emissions above that figure:

- i) Emissions below 160g/km
All of the lease payments are allowable
- ii) Emissions above 160g/km
85% of the lease costs are allowable

Clearly, for low emission cars the new lease rules are attractive in that all of the payments are allowable and even for high emission cars an 85% allowance is quite generous.

Bought Vehicles

The old rules gave businesses an annual 25% tax allowance against a car's cost subject to a maximum claim of £3,000 per year and when the relevant car was sold, a balancing allowance was claimable which meant that over the period of ownership, all of the cost of depreciation was claimed.

The new rules, however, depend upon a car's emissions and for the purposes of tax relief, cars are split into three distinct brackets:

i) Emissions up to 110g/km

These cars attract a 100% write-off in the year of purchase and will do so until 31 March 2013. Clearly, this allowance only relates to the most environmentally friendly vehicles and the list of cars in this bracket is limited. However, the motor manufacturers are constantly innovating and more vehicles should be available for the 100% allowance in the coming months.

All of the motoring magazines publish cars' emissions data and so should you be in the market for a small economical car you may wish to study the list of cars with ultra-low emissions in order to take advantage of this new allowance.

ii) Emissions between 111g/km and 160g/km

These cars are given a writing-down annual allowance of 20%, but unlike cars bought under the old regime, no balancing allowance is claimable on disposal; the balancing allowance is only granted when the whole business permanently ceases trade. Unless a business has a policy of keeping its cars for many years, it is therefore probable that a business will not have fully received tax relief for a car until many years after it has been sold.

iii) Emissions over 160g/km

The new rules are similar to those for emissions between 111g/km and 160g/km, but even tougher, with a writing-down allowance of just 10% and again no balancing allowance until the permanent cessation of trade.

In practical terms this means that it can take up to 20 years to obtain full tax relief on the purchase of a business car, even if the business has a policy of trading-in its vehicles on a regular basis.

Relevant Dates

The tax changes came into effect on 1 April 2009 for limited companies and 6 April 2009 for sole traders and partnerships and so these rules are 'live'.

Conclusion and advice

Unless you are in the market for a car with ultra-low emissions, leasing is usually more preferable than buying as a result of not being able to claim balancing allowances until a business permanently ceases trade. This opinion is even stronger for cars with emissions over 160g/km.

Clearly, in an article such as this, we are only able to describe the outline of the new rules and should anyone want advice on their specific position, feel free to call John Roddison, Peter Wilson, Nick Booth or Glyn Booth.