

### **What is a company car?**

It is a car provided by an employer (including a car under a leasing arrangement) for 'private use' by a director or an employee, or their family or household. 'Private use' includes ordinary commuting journeys.

A car made available to you by a third party will also count as a company car if it is provided because of your employment.

Motor cycles, invalid carriages, and vans or other commercial vehicles **are not** 'company cars'.

### **Who has to pay tax on a company car?**

You have to pay tax on most benefits in kind you receive, including your company car, if you are an employee earning £8,500 a year or more, or are a director. Your earnings for this test include

- your wages or salary
- payments for business expenses, and
- the value of benefits, such as, the company car and private medical insurance.

**You** do not pay NICs on the benefit of a company car but your employer does.

We have used the term 'employee' to cover **both** directors and employees throughout this leaflet. The amount on which employees have to pay tax is referred to as the 'car benefit'.

A further, separate, charge is made if you are also provided with fuel for private use. This is referred to as 'car fuel benefit'.

The tax year runs from 6 April in one year to 5 April in the next.

### **How do I calculate car benefit?**

To calculate your car benefit, take the following steps.

#### **Step 1**

Calculate the price of your car for tax purposes, then deduct any capital contributions you make towards it.

#### **Step 2**

Find the approved CO2 emissions figure for the car, if it has one.

#### **Step 3**

The ready reckoner in Annex A further down shows the qualifying levels for the minimum charge that apply in 2002-03, 2003-04, 2004-05 and 2005-06 and the percentage charges for each CO2 emissions band. Look up the CO2 emissions band for the relevant year to work out the percentage of the car's price to be taxed.

- If the exact CO2 emissions figure does not end in 0 or 5 round it **down** to the nearest 5g/km.
- If the emissions figure is below the minimum qualifying level shown for the relevant year use the percentage charge appropriate to the minimum level.
- If the car has no CO2 emissions figure, use the table in Annex C further down to find the percentage charge applicable to the engine size of the car.

#### **Step 4**

Add any diesel supplement (see Annex A), or apply any discount for alternatively fuelled vehicles, to the percentage charge, where appropriate (see Annex B).

#### **Step 5**

To calculate the basic car benefit charge, multiply the car's price from Step 1 by the appropriate percentage charge from Step 4.

## Step 6

If the car has only been available for part of the tax year, reduce the car benefit proportionately.

## Step 7

Deduct any payments made by the employee for private use of the car.

### Step 1 Price of the car

The 'price' of the car for tax purposes will usually be the total of

- the UK list price of the car published by the manufacturer, importer or distributor on the day before the date of registration
- taxes, VAT and car tax (if the car was registered before 12 November 1992), but not vehicle excise duty (road tax) or the new car registration fee
- delivery charges (including VAT)
- the list price of an accessory fitted **before** the car was first made available to you (including VAT, delivery and fitting charges)
- the list price of an accessory or set of accessories (eg. alloy wheels) with a price of at least £100 (including VAT, fitting and delivery) fitted **after** the car was first made available to you. Accessories fitted after the car was made available increase the price for the tax year in which they were fitted and subsequent years.

For these purposes, you can ignore the following types of accessories

- mobile phones
- equipment to enable a disabled person to use the car, and
- accessories provided with the car because they are needed by you to perform your duties, for example, the cost of adding a tow bar where the employee has to tow a trailer to carry the equipment in order to do the job.

You can find further details in our booklet 480 'Expenses and benefits. A tax guide'.

Cars that run on both petrol and road fuel gas fall into two types

- those manufactured to run on both fuels and first registered on or after 1 January 2000. The price of this type of car is unchanged, but the percentage of the car's price charged to tax is reduced (see Annex B for details).
- all other bi-fuel cars. For these, we ignore any premium on the price of the car because it was manufactured to run on road fuel gases or any costs of converting it to do so.

There is an upper limit of £80,000 on the price of a car for tax purposes. If the price of a car (after deducting any capital contributions you have made) exceeds this figure, its price for tax purposes will be £80,000.

### Example 1

A car registered on 1 August 2000 is supplied to Alex with air conditioning and alloy wheels. Leather upholstery is fitted six months later.

List price	* £12,540
plus delivery, number plates	* £415
air conditioning	* £875
alloy wheels	* <u>£305</u>
Price of car for tax purposes at the time made available	£14,135
Adjustment for leather upholstery fitted later including cost of fitting	* <u>£1,240</u>
Revised price of car for tax purposes	£15,375

\*Including VAT

### **Where can I find the list price of cars and accessories?**

List prices may be obtained from

- the manufacturer or official importer or distributor
- specialist lists of prices in book form or on computer disk
- organisations offering specialist services providing list prices
- leasing companies
- the invoice (if shown).

### **What if the car has no list price?**

If the car had no UK list price when it was first registered, you can use a notional list price instead. This is the price that might reasonably have been expected to be its UK list price had the manufacturer or supplier published one.

For more information see our booklets 480 'Expenses and Benefits. A tax guide' and CA33 'Class 1A National Insurance contributions on Car and Fuel Benefits'.

### **What rules apply to classic cars?**

Special rules apply when, at the end of a tax year, a car

- is 15 years old or more
- has a market value of £15,000 or more, and
- has a market value that is higher than the list price at the time the car was first registered.

The price of these cars for tax purposes is the 'market value' on the last day of the tax year (or the last day in the tax year on which the car is available to the employee). The 'market value' of a car is the price it might reasonably have been expected to fetch on a sale in the open market on that day.

The 'market value' must include any accessories. You can find a car's value from

- valuations (eg. for insurance purposes)
- prices in the market, or
- published prices.

### **What about contributions I pay towards the cost of the car?**

Any 'capital contributions' you make, up to a limit of £5,000 towards the cost of the car or accessories reduce the price of the car for tax purposes, pound for pound.

'Capital contributions' you make towards the cost of a classic car or accessories can be deducted from the market value, again up to a limit of £5,000.

### **Example 2**

Benjamin contributes £3,500 to the cost of a company car.

Total price of car when made available £13,500

less Benjamin's contribution £3,500

Price of car for tax purposes £10,000

### **Steps 2 – 4 The percentage of the car's price which is taxed (the 'appropriate percentage')**

### **What is the approved CO2 emissions figure?**

Cars that are registered in the United Kingdom and or European Community countries must be submitted by their manufacturers or importers for a 'type approval' test. The level of CO2 the car emits is one of the factors reviewed in the course of the test.

We record the approved CO2 emissions figure for car benefit purposes on the certificate that summarises the results of the type approval testing procedure. The figure that applies at the date on which the car is first registered is set for the life of the car.

### **How do I find the approved CO2 emissions figure for a particular car?**

For cars first registered in the UK from 1 March 2001, the CO2 emissions figure is shown on the Vehicle Registration Document (V5).

### **Where do I find the CO2 emissions figures for other cars?**

You can find the CO2 emissions figures for new cars currently on the market from

- the Vehicle Certification Agency (VCA) (an Executive Agency of the Department of the Environment, Transport and the Regions), who collect and publish indicative CO2, fuel consumption and other emissions data for new cars
- a searchable database on its website at [www.vca.gov.uk](http://www.vca.gov.uk)
- a VCA booklet called 'New Car Fuel Consumption and Emissions Figures'. A copy of this booklet is available free of charge from  
The Vehicle Certification Agency (FCB Requests)  
1The Eastgate Office Centre  
2 Eastgate Road  
Bristol  
BS5 6XX  
Tel **0117 951 5151**

- the vehicle manufacturer and importer, who should provide CO2 information for a given car on request. Some may charge you a small fee for this service. CO2 information should also be available at the point of sale.

For cars registered between 1 January 1998 and 28 February 2001, you can get information from

- the Society of Motor Manufacturers and Traders (SMMT), who, under an agreement with us, provide a CO2 enquiry service free of charge on the internet at [www.smmt.co.uk](http://www.smmt.co.uk)
- the vehicle manufacturer and importer, who should provide CO2 information for a given car on request; again, some may charge you a small fee for this service.

For cars first registered before 1998, the appropriate percentage depends only on the engine size – see Annex C.

### **How do I calculate the car benefit charge on a car with an approved CO2 emissions figure?**

To calculate the car benefit charge you will need to know the price of the car for tax purposes and the approved CO2 emissions figure for the particular vehicle. A step-by-step guide is outlined.

#### **Example 3**

Petrol car with an approved CO2 emissions figure.

The price of the car for tax purposes is £15,000. The approved CO2 emissions figure is 183g/km. Round 183 down to 180.

Look up percentage of the car's price to be taxed for 180g/km CO2 for the relevant year in the ready reckoner-see Annex A.

#### **2002-03**

- Percentage charge is 18%.
- Basic car benefit charge is £15,000 x 18% = £2,700.

#### **2003-04**

- Percentage charge is 20%.
- Basic car benefit charge is £15,000 x 20% = £3,000.

#### **2004-05**

- Percentage charge is 22%.

- Basic car benefit charge is  $\text{£}15,000 \times 22\% = \text{£}3,300$ .

#### **2005-06**

- Percentage charge is 23%.
- Basic car benefit charge is  $\text{£}15,000 \times 23\% = \text{£}3,450$ .

#### **Diesel cars**

There is a 3% supplement on the appropriate percentage for diesel cars first registered on or after 1 January 1998, up to the 35% maximum charge. The supplement is waived for cars that meet a European Community emissions standard for cleaner cars, called Euro IV (see Annex A).

#### **Example 4**

Diesel car (not meeting Euro IV emissions standard) with an approved CO<sub>2</sub> emissions figure. The price of the car for tax purposes is  $\text{£}20,000$ . The approved CO<sub>2</sub> emissions figure is 172g/km.

- Round 172 down to 170.
- Look up percentage of car's price to be taxed for the relevant year in the ready reckoner in Annex A.
- Add the diesel supplement, if appropriate.

#### **2002-03**

- Percentage charge is 16%.
- Add 3% diesel supplement, so percentage charge becomes 19%.
- Basic car benefit charge is  $\text{£}20,000 \times 19\% = \text{£}3,800$ .

#### **2003-04**

- Percentage charge is 18%.
- Add 3% diesel supplement, so percentage charge becomes 21%.
- Basic car benefit charge is  $\text{£}20,000 \times 21\% = \text{£}4,200$ .

#### **2004-05**

- Percentage charge is 20%.
- Add 3% diesel supplement, so percentage charge becomes 23%.
- Basic car benefit charge is  $\text{£}20,000 \times 23\% = \text{£}4,600$ .

#### **2005-06**

- Percentage charge is 21%.
- Add 3% diesel supplement, so percentage charge becomes 24%.
- Basic car benefit charge is  $\text{£}20,000 \times 24\% = \text{£}4,800$ .

#### **What discounts do you get for cars that run on alternative fuels and technologies?**

Discounts reduce the CO<sub>2</sub> emissions based charge for cars registered in 1998 or later and which are

- battery electric
- hybrid electric, or
- run on road fuel gas (e.g. liquid petroleum gas or compressed natural gas).

Full details of the discounts are set out in Annex B.

#### **What if the car has no CO<sub>2</sub> emissions figure?**

Cars first registered before 1 January 1998 and a small number of cars registered after that date, perhaps because they are one-off models or privately imported from outside the EC, do not have an approved CO<sub>2</sub> emissions figure. For these cars, the percentage of the price to be taxed is based on their engine size. Full details are set out in Annex C.

#### **Are there any special rules for disabled employees?**

An employee who holds a disabled person's badge and is disabled to the extent that the only car he or she can drive is one with automatic transmission, should calculate the car benefit using the CO2 emissions figure for the closest manual equivalent.

Employers do not have to pay Class 1A NICs on cars provided to disabled drivers if they are provided to help them travel between home and their place of work with no private use.

### **Step 6 Car unavailable for part of the tax year**

If the car is 'unavailable' for part of the tax year, you reduce the car benefit proportionately. A car is unavailable

- at any time before the day it is first made available
- at any time after the last day on which it was available, or
- if it is not available for a period of at least 30 consecutive days, perhaps because it is being repaired.

The car benefit continues to run if you are physically unable to drive your company car for any reason, unless the car itself is 'unavailable'.

### **Step 7 Payments for private use of the car**

Any payments you make for the car's private use are deducted from the car benefit.

#### **Example 5**

Carol must pay £100 a month for the private use of her petrol-powered company car, which has an approved CO2 emissions figure of 165 g/km. The price of the car for tax purposes is £22,000.

#### **2002/03**

Car benefit (£22,000 x 15%) £3,300

less payments for private use (12 x £100) £1,200

Car benefit £2,100

### **Car fuel benefit**

#### **What happens if I receive free fuel for private use?**

You must pay a separate tax charge on the benefit of free fuel provided for private motoring in a company car, whether your employer provides fuel from their own pumps, pays for, or reimburses the cost of fuel. The only exception is for cars powered only by electricity, which are exempt from the fuel benefit charge.

The benefit is calculated in a new way from 6 April 2003.

The value of the benefit is based on

- the same 'appropriate percentage' used to calculate the car benefit (including supplements and reductions), applied to
- an amount for each tax year set in the Budget (£14,400 for 2003/04)

You must pay tax on the full amount of the fuel benefit charge if your employer provides any free fuel for your private use, unless

- you are required to, and do, bear the **full** cost of **all** fuel used for private journeys. You can do so by
- reimbursing your employer or
- buying the same amount of fuel and using it on business journeys.
- the car was unavailable for part of the tax year, in which case the fuel benefit charge is reduced in the same proportion as the car benefit charge
- you are no longer provided with free fuel for private use during the tax year, in which case we will reduce the charge proportionately both for days before the car was available and from the day after free fuel was withdrawn.

If your employer provides you with more than one car, there is a fuel benefit charge for each car for which fuel for private travel is provided.

## **Example 6**

Sue's employer provides her with fuel for her private use in a car for which the appropriate percentage for 2003/04 is 20%. The fuel benefit charge for 2003/04 is

- $£14,400 \times 20\% = £2,880$ .

If Sue's employer withdraws free fuel on 31 December 2003 and doesn't reinstate it, the charge becomes

- $£14,400 \times 20\% \times (366 - 96) / 366 = £2,124$ .

But, if her employer reinstates free fuel before 6 April 2004, the full charge of £2,880 applies.

## **Other points**

### **How do we collect the tax on your company car and car fuel ?**

We will normally collect the tax through your Pay As You Earn (PAYE) code or by an adjustment after the end of the tax year, or both.

Under PAYE, we deduct tax from your income by using codes and tax tables which are designed, as far as possible, to ensure that we deduct the correct amount of tax during the tax year without the need for an assessment at the end of the year.

Your PAYE code is made up of personal allowances and other reliefs due, less any amounts to cover taxable income, such as a company car and other benefits in kind, to which PAYE cannot be applied.

Your employer normally provides us with information about your benefits in kind, including company cars, so that we can work out your PAYE code. But, you must still include details of those benefits on your tax return if you are asked to complete one.

### **Where can I go for more help?**

These notes do not cover every point but any Inland Revenue Enquiry Centre or Tax Office will be pleased to help you. You can find the addresses are in your local phone book under 'Inland Revenue'.

You can find a fully interactive car and car fuel benefit calculator on our website [www.inlandrevenue.gov.uk/cars/index.htm](http://www.inlandrevenue.gov.uk/cars/index.htm). It will also provide an indication of the amount of tax you will have to pay on the benefit.

## **Section 2 - Employers**

### **What records do I have to keep?**

You need to keep enough records to enable you to correctly calculate the amount of the car benefit and any NICs due.

There is a working sheet on calculating car benefits included with the P11D series of forms. You can get the working sheet P11D WS2 'Car benefit and car fuel benefits' which provides a useful reminder of the type of information you will need from

- the Employer's Orderline on **0845 7 646 646** between 8.00am and 8.00pm Monday to Friday and between 10.00am and 1.00pm on Saturdays, or
- our Internet site at **www.inlandrevenue.gov.uk**

### **When do I have to pay NICs?**

Since 6 April 2000, as an employer, you (may have to pay Class 1A NICs on most taxable benefits you provide to

- directors
- employees who are paid £8,500 a year or more, including taxable benefits and expenses payments.

Only employers are liable to pay Class 1A NICs, which have been payable on car and fuel benefits since 6 April 1991.

Normally, a Class 1A NICs liability will arise where the benefit of a car is chargeable to income tax on the director or employee and the employment for which the car is available is employed earner's employment under Social Security law. Generally, employers are also liable to pay Class 1A NICs on the benefit of providing fuel for an employee's private use in a company car, but there may be occasions where Class 1 NICs will be due instead. For more information see booklets CWG2 and CA33.

Full details about how Class 1A NICs are calculated on car and fuel benefits are contained in booklet CA33, listed on the inside front cover.

More information about how Class 1A NICs are worked out on other benefits and the reporting and paying arrangements for Class 1A NICs are contained in booklet CWG5 'Class 1A National Insurance contributions on Benefits in Kind'.

### **What information do I have to provide to the Inland Revenue?**

To help us to get your employees' tax codes right, you must send us a quarterly return form P46 (Car) as at 5 July, 5 October, 5 January and 5 April, showing employees who are

- first provided with a car
- provided with a change of car
- provided with an additional car
- already provided with a car who start to earn £8,500 or more or become a director
- no longer provided with a car.

The form P46 (Car) also asks you for information about

- the car's CO2 emissions, and
- the type of fuel or power used to propel the car.

You must also complete and send us, by 6 July following the end of the tax year, a form P11D showing details of all expenses payments and benefits provided for each employee. You must give a copy of the information to the employee by the same date.

To help you to calculate the company car and fuel benefit charges for your employees, a fully interactive calculator is available on the Employer's CD-ROM issued with your Employer Packs. A copy of the latest version of the CD-ROM is also available from the Employer's Orderline on **08457 646 646** between 8.00am and 8.00pm Monday to Friday and between 10.00am and 1.00pm on Saturdays.

A car and car fuel benefit calculator is also available on our website at [www.inlandrevenue.gov.uk/cars/index.htm](http://www.inlandrevenue.gov.uk/cars/index.htm).

For general advice and assistance, employers can call the Employer's Helpline on **0845 7 143 143** between 8.00am and 8.00pm Monday to Friday and between 8.00am and 5.00pm at weekends.

### **Annex A**

#### **Car benefit charges for cars with an approved CO<sub>2</sub> emissions figure**

<b>CO<sub>2</sub> emissions in grams per kilometre</b>				<b>Percentage of car's price to be taxed</b>
<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	
165	155	145	140	15*
170	160	150	145	16*
175	165	155	150	17*
180	170	160	155	18*
185	175	165	160	19*
190	180	170	165	20*
195	185	175	170	21*

200	190	180	175	22*
205	195	185	180	23*
210	200	190	185	24*
215	205	195	190	25*
220	210	200	195	26*
225	215	205	200	27*
230	220	210	205	28*
235	225	215	210	29*
240	230	220	215	30*
245	235	225	220	31*
250	240	230	225	32*
255	245	235	230	33**
260	250	240	235	34***
265	255	245	240	35****

Diesel Supplements (note that these only apply to cars first registered in 1998 or later which run solely on diesel and are not approved to Euro IV emission standards)

\* **Add 3%**

\*\* **Add 2%** \*\*\* **Add 1%**

\*\*\*\* **Maximum charge, so no diesel supplement.**

The basic car benefit charge is the car's list price multiplied by the appropriate percentage for the CO<sub>2</sub> emissions band in which the car falls, subject to

- the addition of any diesel supplement, or
- discounts for cars using alternative fuels and technologies (see Annex B).

Manufacturers will be able to advise whether or not a particular model is approved to Euro IV emission standards, or you can look on the VCA website ([www.vca.gov.uk](http://www.vca.gov.uk)). No Euro IV approved cars were available on the UK market until early 2003.

## **Annex B**

### **Discounts for cars that run on alternative fuels and technologies**

These discounts apply only to cars first registered on or after 1 January 1998.

#### **Battery electric cars**

Electric cars that run solely on electricity (normally by battery) do not emit CO<sub>2</sub>. These vehicles attract the minimum percentage charge of 15%, less a discount of 6%, so tax is charged on 9% of the price of the car (15% - 6% = 9%).

#### **Hybrid electric cars**

For cars that run on a combination of petrol and electricity, the discount is 2%, plus an additional 1% for each full 20g/km that the CO<sub>2</sub> emissions figure is below the qualifying level for the minimum charge for the year.

#### **Example 7**

Hybrid electric car.

The price of the car for tax purposes is £17,000. The approved CO<sub>2</sub> emissions figure is 120g/km.

- Percentage charge is 15%.
- Discount is 2%, plus any discount for CO<sub>2</sub> emissions figures below the qualifying level for minimum charge for the year.

### **2002-03**

Discount is 2%, plus an additional 2% (the CO<sub>2</sub> emissions figure is 45g/km below the 165g/km qualifying level).

- Percentage charge is 15% - 4% = 11%.
- Basic car benefit charge is £17,000 x 11% = £1,870.

### **2003-04**

Discount is 2%, plus an additional 1% (the CO<sub>2</sub> emissions figure is 35g/km below the 155g/km qualifying level).

- Percentage charge is 15% - 3% = 12%.
- Basic car benefit charge is £17,000 x 12% = £2,040.

### **2004-05**

Discount is 2%, plus an additional 1% (the CO<sub>2</sub> emissions figure is 25g/km below the 145g/km qualifying level).

- Percentage charge is 15% - 3% = 12%.
- Basic car benefit charge is £17,000 x 12 = £2,040.

### **2005-06**

Discount is 2%, plus an additional 1% (the CO<sub>2</sub> emissions figure is 20g/km below the 140g/km qualifying level).

- Percentage charge is 15% - 3% = 12%.
- Basic car benefit charge is £17,000 x 12 = £2,040.

### **Cars using road fuel gas (e.g. liquid petroleum gas (LPG) or compressed natural gas (CNG))**

For cars that run on road fuel gas alone, the discount is 1%, plus an additional 1% for each full 20g/km that the CO<sub>2</sub> emissions figure is below the qualifying level for the minimum charge for the year.

For bi-fuel cars with both gas and petrol tanks, the calculation of the car benefit charge depends on whether the car is

- type approved for running on petrol and gas, or
- a petrol type-approved car later converted to be able to also run on gas.

Cars built by manufacturers from 1 January 2000 onwards to run on both gas and petrol have approved CO<sub>2</sub> figures for both gas and petrol.

For these cars, the car benefit is calculated using the full list price of the car and the appropriate percentage from Annex A that applies to the gas CO<sub>2</sub> emissions figure. This is reduced by 1%, plus an additional 1% for each full 20g/km that the CO<sub>2</sub> emissions figure is below the qualifying level for the minimum charge for the year.

### **Example 8**

Gas powered or bi-fuel petrol and gas powered car first registered in 2000 or later.

The price of the car for tax purposes is £18,000. The approved gas CO<sub>2</sub> emissions figure is 145g/km.

### **2002-03**

- Percentage charge is 15%.
- Discount is 1% plus an additional 1% (the CO<sub>2</sub> emissions figure is 20g/km below the 165g/km qualifying level).
- Percentage charge is 15% - 2% = 13%.
- Basic car benefit charge is £18,000 x 13% = £2,340.

Cars first registered before 1 January 2000, and petrol cars that are converted to use gas as well as petrol after the type approval process, have a type approved CO<sub>2</sub> emissions figure for petrol only.

For these cars, the car benefit is calculated using the list price for the petrol only model of the car and the petrol CO2 figure. Any premium on the list price of a car manufactured to run on road fuel gas or any additional conversion costs is ignored. The discount is 1%.

**Example 9**

Petrol car converted to use LPG as well as petrol after the type approval process. The list price of the car is £17,500, which includes LPG conversion costs of £1,800. The conversion costs are ignored, so the price for tax purposes is £15,700. The approved petrol CO2 emissions figure is 170g/km.

**2002-2003**

- Percentage charge is 16%.
- Discount is 1%, so percentage charge becomes 15%.
- Basic car benefit charge is £15,700 x 15% = £2,355.

**Annex C**

**Car benefit charges for cars with no approved CO2 emissions figure and all cars first registered before 1998**

One scale of charges applies for all cars registered before 1 January 1998; and another for the small number of cars registered from 1 January 1998 onwards.

Engine size cc	Car first registered before	Car first registered on or
	1 January 1998	after 1 January 1998
	Percentage of car's price to be taxed	
0 - 1,400	15 %	15%*
1,401 - 2,000	22%	25%*
2,001 +	32%	35%**
Cars without a cylinder capacity (eg. rotary engined petrol cars)	32%	35%

**Diesel Supplements** (cars registered on or after 1 January 1998 only)

\* Add 3% if car runs solely on diesel.

\*\* Maximum charge, so no diesel supplement.

The basic car benefit charge is the car's list price multiplied by the appropriate percentage appropriate to the car's age and engine size (including any diesel supplement).