

TAX ADVANTAGES ON ELECTRIC VEHICLES FOR INDIVIDUALS



INTRODUCTION

As most drivers of a company car will be aware, if you have any private use of the vehicle this will result in a significant Income Tax charge. This charge is the way that HMRC levy tax on the deemed value of the benefit of having the use of a company car, and the more expensive the car is and the higher the CO2 footprint of the car, the higher the Income Tax charge will be.

The benefit in kind is a percentage of the list price of the car when it was new, and the percentage applied increases in line with the CO2 emissions of the car.

This is why many company car drivers are now looking at electric vehicles – either plug-ins or self-charging hybrids – as a tax efficient alternative.

BENEFIT IN KIND (BiK)

When a car is provided for an employee by their employer and it is available for personal use, the employee must pay some tax on the effective benefit that they receive for this.

HM Treasury calculates how much benefit they receive, based on a percentage (BiK rate) of the car's "PIID" value, compared to just receiving an equivalent amount in pre-income tax pay. The Government has set BiK rates to encourage employers and company car drivers to choose vehicles with lower CO2 emissions like fully electric cars, or hybrids.

For company cars, the BiK amount is based on the list price of the vehicle and the level of CO2 g/km that it emits. This can be found on the V5 document. Fully electric cars are charged on 2% of the list price in 2023 -24, with this amount remaining frozen until at least 2024-25.

The difference in the BiK income tax charge on a higher-rate employee receiving an £80,000 petrol or diesel company car and an £80,000 electric company car, could be as much as £12,600 and the employer could save up to £3,864 in Class 1A NICs.

	Porsche Cayenne	Tesla Model S
List price	£80,000	£80,000
BiK rate	37%	2%
Tax @ 45%	£13,320	£720
Class 1 NICs @ 13.8%	£4,085	£221

If you choose a hybrid car, the BiK will be lower than a fossil fuel car, but not as low as a fully electric car.

BiK percentages for hybrids 50g /km and under, range from 2-14% depending on electric range of the vehicle. Above 50g /km the vehicle will be treated as a fossil fuel car, even if it is a hybrid.



CAR FUEL BENEFIT

Where an employer provides fuel for private motoring (petrol and diesel, including hybrids), even for as little as one mile in a full year, an additional benefit arises on the provision of this fuel. This is based on a percentage of amount that is fixed each year, and for 2023/24 is set at £27,800. This is multiplied by the same percentage of the list price as it used for the car benefit itself, and so is more for higher emission cars.

As electricity is not classed as a fuel, there is no fuel scale charge on 100% electric cars so drivers of such cars pay no BiK tax on fuel.

CLASS 1A NATIONAL INSURANCE CONTRIBUTIONS

Class 1A NICs are payable at 13.8% of taxable value by the employer on the company car benefit and employer-provided 'free' fuel for private use.

CHARGING POINTS

If an employee has an electric company car, there is no BiK when the employer installs a charging point at the home of the employee.

If however, the charging point is being installed to service a private car which is used for business use, the cost is a BiK based on the cost of the employer to install.

GOVERNMENT GRANTS AND OTHER BENEFITS

There are various government grants available surrounding electric cars, including the plug-in grant, which reduces the cost of the purchase of an electric vehicle; the electric vehicle charge point grant for multi-unit properties and the workplace charging scheme for workplace charging units.

In addition, the vehicle excise duty (road tax) is currently exempt for fully electric cars prior to April 2025, and both the London congestion charge and the Ultra-Low Emission Zone Charge (ULEZ) exempts fully electric vehicles. There is also no fuel duty on electricity.

GET IN TOUCH

If you would like to discuss whether electric vehicles are beneficial to you, then please do not hesitate to get in contact with your local Moore (South) office.

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