

Changes to Ultra-Low Emission Vehicles (ULEVs)

Currently, if an individual is provided with the use of a company car, and they are able to make use of this vehicle privately, a taxable benefit arises. The benefit is valued based upon a percentage of the list price and additions, which is calculated in line with the vehicle's level of CO₂ emissions, meaning that lower emission cars will have a lower taxable benefit.

The government confirmed in autumn 2017 that from the 2020/21 tax year, the car benefit system will change significantly to make zero and low emission vehicles more attractive. These changes are not only to incentivize the use of low-emission vehicles – supporting the UK's ULEV market – but also to address the issues of poor air quality and reduce the effects of climate change.

The proposed changes

From 6 April 2020, the benefit in kind rates for all-electric cars is reducing from 16% to 2% which will potentially result in significant tax and National Insurance contribution (NIC) savings.

Benefit in Kind (BIK)

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

The government has set BIK rates to encourage employers and company car drivers to choose vehicles with lower CO₂ emissions like electric cars or plug-in hybrids.

BIK rates for cars registered before April 2020:

CO ₂ (g/km)	Electric Range (miles)	2019-20 (%)	2020-21 (%)	2021-22 (%)	2022-23 (%)
0	N/A	16	0	1	2
1-50	>130	16	2	2	2
1-50	70-129	16	5	5	5
1-50	40-69	16	8	8	8
1-50	30-39	16	12	12	12
1-50	<30	16	14	14	14
51-54		19	15	15	15
55-59		19	16	16	16
60-64		19	17	17	17
65-69		19	18	18	18
70-74		19	19	19	19
75		19	20	20	20

BIK rates for cars registered after April 2020:

CO2 (g/km)	Electric Range (miles)	2020-21 (%)	2021-22 (%)	2022-23 (%)
0	N/A	0	1	2
1-50	>130	0	1	2
1-50	70-129	3	4	5
1-50	40-69	6	7	8
1-50	30-39	10	11	12
1-50	<30	12	13	14
51-54		13	14	15
55-59		14	15	16
60-64		15	16	17
65-69		16	17	18
70-74		17	18	19
75		18	19	20

In 2020/21, above 75g CO2 g/km, the appropriate percentage continues to increase by one percent for each increase of 5g CO2 g/km, to a maximum of 37% for CO2 emissions above 165g/km.

Example

For an all-electric car such as the BMW i3 registered before April 2020, with a list price of £35,295 and zero CO2 emissions, the benefit in kind would be as calculated as follows:

List Price		£35,295	
Electric range		(av UK mix 0 cc, 0 litre, 120Ah Auto)	
Tax Year	Relevant %	Taxable benefit	Employer NIC at 13.8%
2019/20	16%	£5,647	£779
2020/21	0%	£0	£0
2021/22	1%	£353	£49
2022/23	2%	£706	£97

The benefit in kind for 2019/20 would be at 16% and would, therefore, be £5,647. However, when comparing this amount to the benefit in kind for the same car in 2020/21 at 0% being £0, you can see there is a significant saving to be made; especially if you consider the NIC saving for the employer at 13.8% of the taxable benefit.

These changes make owning an electric car in a business and providing a benefit in kind to an employee/director much more attractive.

As a comparison, the BIK on a Tesla car with a list price of £100,000 would be £2,000 in 2022/23 versus £16,000 for the 2019/20 tax year.

As of September 2018, electricity is recognised as a fuel by HMRC, and advisory fuel rates published at a recommended reimbursement cost of 4p per mile (for electric vehicles only - hybrids have AFR rates equivalent to petrol/diesel vehicles).

Capital Allowances

For low emission and all-electric vehicles, businesses can claim Enhanced Capital Allowances (ECA) which work very much like first year allowances. In the first year of purchase, ULEVs are eligible for a 100% allowance providing that they are purchased brand new (not used or second hand).

All business can claim 100% ECA on cars provided that:

- It is electric or has CO2 emissions of ≤ 50 g/km
- The expenditure is incurred before 31 March 2021

There is a wide range of vehicles that will qualify for 100% ECAs. This includes VW e-Golf, Volvo V60/XC90 PHEV, Mercedes PHEV, Audi e-tron A3 or Q7, BMW e-range and several others. If someone would like to be more lavish with their spending, there are also BMW i8 hybrid and the Porsche 918 Spyder.



Cars, which are not eligible for ULEVs, will continue to be eligible for capital allowances at 18%. Car exceeding CO2 emissions of 110 g/km will be eligible for 8% capital allowances.

Government Grants

To support the incentives and further the attractiveness of ULEVs, there is a government grant available to both businesses and individuals when purchasing a new electric vehicle or plug-in hybrid (PHEV). Providing the CO2 emissions are below 50 g/km and the vehicle has an electric range of at least 70 miles, the government will grant up to £3,500 towards the purchase. The dealer most commonly handles this grant and they will deduct it during the purchase.

The amount eligible for capital allowances will be the net spend, whereas, for benefits in kind, it will be calculated on the actual list price. Furthermore, the government are offering grants of up to £500 towards installing charging points at home. This will commonly bring the expense down to around £300 and would noticeably improve the efficiency of the charging process.

If you would like to find out more about the changes in tax treatment of low-emission vehicles and how we at RRL can assist, please contact our Tax Partner, Steve Maggs, on 01872 276116 or steve.maggs@rrlcornwall.co.uk

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