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Greener motoring – tax changes for employer provided cars



Changes to the tax regime for employer provided cars took effect from 6 April 2020. These affect not only an employee or director who has an employer provided car but also impact on the costs to the employer of providing the car.

An employer provided car results in a benefit to an employee or director upon which income tax is payable. The benefit is based on the vehicle's carbon dioxide (CO₂) emissions and its list price. The employer will suffer a Class 1A National Insurance Contribution (NIC) charge at 13.8% of the amount which is assessed as a benefit on the employee.

The main changes were:

- the CO₂ emissions for cars registered from 6 April 2020 are based on a new test procedure
- a 1% tax rate applies for 2021/22 on wholly electric cars and hybrids which have a long electric-only range
- lower rates apply for some other hybrid cars.

New emissions test standards

The use of the Worldwide harmonised Light vehicle Test Procedure (WLTP) in April 2020 was an important part of the government's shift to greener motoring. The WLTP is more accurate than the New European Driving Cycle (NEDC) test it has replaced, and car manufacturers state that it shows higher vehicle CO₂ emissions. However, for cars registered before 6 April 2020 the NEDC test is still used.

	Car with CO ₂ emissions of 95g/km – rates	
Tax year NEDC test	NEDC test Pre 6.4.20 registration %	WLTP test Post 6.4.20 registration %
2020/21	24	22
2021/22	24	23
2022/23	24	24

The Vehicle Certification Agency provide a search facility which shows current and prospective CO₂ emissions for specific cars.



Zero and low emission cars

To accelerate the shift to zero-emission and very low emission cars, new tax rates and bands were introduced from 2020/21.

What vehicles are available?

There are different types of electric vehicles (EVs): pure electric vehicles (PEVs) use rechargeable batteries and run solely from electrical power rather than an internal combustion engine and are zero-emission vehicles.

A hybrid electric vehicle (HEV) uses power from two sources, one fuelled by petrol or diesel, the other electric. HEVs switch between the two motors and generally have a small electric-only range of a few miles.

Plug-in hybrid vehicles (PHEVs) are more advanced and fuel-efficient. PHEVs recharge their batteries from an electrical source. These vehicles have a higher electric-only range.

What are the tax rates?

PEVs, regardless of when they were registered, are subject to a 0% rate in 2020/21. Thus, drivers of these cars pay no company car tax in 2020/21.

The rate will rise by a single percentage point in each of the following two tax years and will thus be 2% in 2022/23. So, drivers of these cars will pay minimal tax in 2021/22 and 2022/23.

Hybrids may benefit from the introduction new performance-related bands for vehicles with emissions up to 50g/km depending on how far the hybrid vehicle can travel under electric power. The rates are now:

Cars first registered from 6 April 2020				
CO ₂ emissions (g/km) Electric range	Electric range (miles)	Appropriate Percentage (%)		
		2020-2021	2021-2022	2022-2023
0	N/A	0	1	2
1-50	>130	0	1	3
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

Cars first registered from 6 April 2020				
CO ₂ emissions (g/km) Electric range	Electric range (miles)	Appropriate Percentage (%)		
		2020-2021	2021-2022	2022-2023
0	N/A	0	1	2
1-50	>130	2	2	2
1-50	70-129	5	5	5
1-50	40-69	8	8	8
1-50	30-39	12	12	12
1-50	<30	14	14	14

Full details can be found in Annexe A of an HM Treasury document on a review of WLTP: <https://bit.ly/2r3YCE9>

Other considerations

The diesel supplement

An additional supplement of 4% of the list price applies to diesel cars up to a maximum cap of 37%. The supplement does not apply to diesel hybrids, or if a car is registered on or after 1 September 2017 and meets the Euro Standard 6d emissions. A diesel car which meets this standard will have Fuel Type ‘F’ for the P11D and P46(Car). Otherwise the diesel code is ‘D’. From September 2018 the Euro Standard to which a car has been certified is recorded on the car’s V5c logbook.



Fuel and provision of electricity

An additional taxable benefit arises where fuel is provided by the employer for private mileage. The taxable car fuel benefit is calculated by applying the appropriate percentage to the car fuel benefit charge multiplier, which is £24,500 in 2020/21 and £24,600 in 2021/22. This is an expensive benefit to provide to an employee unless the car has very low CO₂ emissions. Electricity is not regarded as a fuel for car fuel benefit purposes and as a result there is no fuel benefit if an employer pays to charge a PEV. A more recent change allows a reimbursement of electricity costs incurred by an employee at 4p per mile for business journeys for employer provided PEVs.

Hybrids are subject to normal fuel benefit rules and are subject to the normal authorised mileage rates for the costs of petrol or diesel incurred by an employee on business journeys.

However, there is no taxable benefit if the electricity is provided by workplace charging points for employer and employee provided cars. This applies to all types of EVs.



Capital allowances

The use of EVs is also being encouraged by the availability of a 100% first year allowance for expenditure on electric charge-point equipment until 31 March 2023 for corporation tax, and 5 April 2023 for income tax.

A 100% first year allowance is available for expenditure on the purchase of new and unused cars with CO₂ emissions of 0 g/km. This applies from 1 April 2021 when the 100% first year allowance will apply to cars with zero emissions. Prior to April 2021 purchase of cars with emissions up to 50 g/km qualify for the 100% first year allowance.

From 1 April 2021 for companies (6 April for unincorporated businesses) expenditure on cars with CO₂ emissions not exceeding 50 g/km is pooled in the main rate pool attracting an 18% writing down allowance, while those with emissions over 50 g/km form part of the special rate pool attracting a 6% writing down allowance. Prior to April 2021 the purchase of cars with emissions up to 110 g/km qualify for the main rate pool and an 18% writing down allowance.

The plug-in car grant

EVs may benefit from the Plug-in Car Grant. The grant is 35% of the purchase price of the car, but is capped at a maximum of £2,500. CO₂ emissions must be under 50g/km and the vehicle needs to be able to travel at least 70 miles without any emissions. To be eligible for the grant, cars must cost less than £35,000. Purchasers do not need to do anything to claim this grant as the dealer will include the value of the grant in the car's price.

Vehicle Excise Duty

Vehicle Excise Duty (VED) is set at a 0% rate for zero-emission cars. Cars registered after March 2017 incur a first-year rate of VED between zero and £2,175, depending on emissions, followed by a flat rate (currently £150) in subsequent years. The government decided not to adjust the VED to reflect the introduction of WLTP.

If there is any further information you require, please do not hesitate to contact us.