

Tax Pointers

Returns

If you are a sole trader or a partner, you need to record motoring expenses and mileages for the purpose of claiming tax reliefs for these costs. However, if you are the owner of a limited company or of a business providing one or more company cars, you must comply with the reporting requirements of HM Revenue and Customs.

You must give notice when a company car is first provided to an employee or director, report every change, and annually report the taxable benefit(s). A form P46(car) must be filed within 28 days of the end of the quarter reporting all new company cars and changes.

A form P11D, reporting all benefits and expenses payments not covered by a dispensation, must be filed no later than the 6 July following the end of the tax year. The same deadline applies for providing a copy to the employee or director.

Employees and directors using their own cars

In many cases, business travel will be undertaken by employees and directors using their own vehicles. HM Revenue and Customs have authorised mileage rates which can be paid by employers to reimburse the cost of such usage, and payments at these rates will be accepted for all tax purposes:

Vehicle	First 10,000 miles	Thereafter
Car or van	40p	25p
Motorcycle	24p	24p
Bicycle	20p	20p

Higher rates can be negotiated where a case can be made for using a vehicle with a higher than average fuel consumption.

Pros and cons of company cars

Pros: essential tools for your business; control over company image and costs; peace of mind for employees.

Cons: paperwork; fleet management; capital locked into the car fleet; cost of finance; tax and NIC costs.

We can help you weigh up the options and decide on the best course of action for your business.

Our Services

Business Planning

- Business start-up planning and advice
- Strategic and business planning
- Financial management
- Financial information systems
- Computer systems advice

Taxation Advice

- Self assessment
- Personal tax
- Business tax
- Company tax
- Capital gains tax
- Inheritance tax
- HM Revenue and Customs investigations
- Value Added Tax
- PAYE and national insurance compliance

Accounting

- Preparation of annual accounts
- Preparation of periodic management accounts
- Book-keeping services
- Maintaining PAYE and VAT records and associated returns

Company Secretarial

- Preparation and filing of statutory returns
- Preparation of minutes and resolutions
- Company formation
- Company searches

Auditing

- Statutory audit

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For many businesses, motoring costs are a significant expense in the profit and loss account. This cost has increased in recent years as a result of the spiralling cost of fuel and the scale charges for VAT and Class 1A national insurance contributions (NICs).

Managing the cost of motoring is not restricted to tax efficiency, it also includes ownership (should the car be personally owned), financing and running costs.

Ownership

For those who are sole traders or partners, ownership is not an issue - the income tax scale charge system does not apply to the owner's own vehicle. For directors and employees it is not uncommon for cars to be owned privately, although each situation should be considered on an individual basis.

Financing

The three principal options are:

- Outright purchase, possibly funded by a loan/overdraft
- Hire purchase/lease purchase/personal contract purchase
- Contract hire/leasing.

The decision as to which is appropriate will need to take into account a range of factors including the availability of cash, car ownership and the VAT situation.

Running costs

Generally, tax relief is available for the cost of business usage, which will be influenced by the annual mileage, the fuel type of the vehicle, the age of the car acquired and the effective retention period.

Employed or self-employed?

In general the tax costs related to the provision of a car that is available for both private and business use for a sole trader or partner are less than those associated with the provision to an employee or a director.

Sole trader and partners

The tax cost of private motoring is generally calculated on a case-by-case basis, taking into account the actual private and business mileage to identify the proportion of the cost of running the car which is not a deductible expense. The proportion of costs attributable to business motoring is tax-deductible, so qualifies for relief against both tax and Class 4 NICs.

Employees and company cars

Where the company owns the car the decision to be taken is who pays for the fuel. Because, inevitably, fuel will be used for both private and business journeys, a system needs to be put in place to record the journeys and enable the business and private proportions to be calculated.

Who pays for the fuel?

If all fuel is provided by the employer, the employee will be liable for tax, and the employer for Class 1A NICs, on the benefit of private-use fuel unless he or she reimburses the employer at the official fuel-only mileage rates (see below). If, on the other hand, the employee pays for all fuel, there will be no personal tax liability (and no matching NIC liability) if this is reimbursed by the employer at the same rates.

Engine capacity	Fuel-only rate per mile		
	Petrol	Diesel	Gas
Up to 1400cc	10p	9p	7p
1401 – 2000cc	12p	9p	8p
Over 2000cc	14p	12p	10p

Fuel benefits

Where fuel for private use is provided by an employer – even as little as a litre – the employer is liable for Class 1A NICs, and the employee for tax, on the benefit. This is calculated by multiplying £14,400 by a percentage of between 15% and 35%, the rate being dependent on fuel type and the car's carbon dioxide emissions.

A VAT scale charge also applies, ranging from £140 to £273, depending on engine size and fuel type.

Car benefit

The employer's Class 1A NIC liability, and the employee's tax liability, on a company car will be calculated by reference to a benefit figure. This figure is determined by multiplying the car's UK list price on the day before it was first registered (and including the UK list price of most accessories, whether fitted on or after delivery) by the same emissions-based percentage as applies for the fuel benefit.

Company vans

Until 2007 the maximum tax payable by an employee or director on a company 'van' is only £200 (the matching employer Class 1A NIC cost is £64), and there is no charge for fuel provided.

The rules are due to change from 6 April 2007 – at current rates the maximum tax will rise to £1,200, plus up to £200 for fuel for the employee or director and matching Class 1A NIC costs of £384 for the van and £64 for fuel for the employer.

A 'van' for this purpose includes some extended cab pick-ups, complete with off-road styling, air conditioning and leather upholstery.

Such vehicles currently qualify for the low tax cost, but the definition is one made by HM Revenue and Customs, and it may be that as the number of such vehicles used mainly for private use grows, it will be changed to exclude them.