

# Company car tax is changing



## Company car tax – it's all a matter of CO<sub>2</sub>

Driving cleaner, more efficient cars is good for the planet – now it will help with the taxman, too

### Benefit In Kind

Benefit In Kind, or BIK, applies to company cars. Everyone with a company car who earns more than £8,500 a year has to pay it. The amount of BIK tax you pay is worked out as a percentage of the P11D value of the car – which is the price of the car minus first registration fee and 12 months road fund licence – and that percentage is determined by the car's CO<sub>2</sub> emissions. The higher the emissions, the higher the percentage of tax you pay. It's a way of encouraging us all into cleaner, more efficient cars.

### What's changed?

For the 2008/9 tax year (and 2009/10) the CO<sub>2</sub> bandings have been adjusted to favour cars with low emissions, as you can see from our comparison table. And a new 10% taxation band has been created for cars with CO<sub>2</sub> emissions of 120g/km or less.

## Company cars: CO<sub>2</sub> emissions and the percentage of tax you pay

This table shows what percentage of BIK tax you will pay according to your car's CO<sub>2</sub> emissions.

- On cars registered after 1 March, 2001, you will find the CO<sub>2</sub> figure listed on the V5 Vehicle Registration Document.
- CO<sub>2</sub> output details for cars registered between 1 January, 1998 and 28 February, 2001, can be found at the Vehicle Certification Agency website, [www.vcacarfueldata.org.uk](http://www.vcacarfueldata.org.uk).

### Write Down Allowances (WDA)

The amount of CO<sub>2</sub> produced by your car also has an impact on what percentage of its value you can write down against your tax bill. From 1 April 2009, cars emitting more than 160g/km of CO<sub>2</sub> will have a Write Down Allowance, or WDA, of 10% of their value annually; for cars with emissions of 111g/km to 160g/km, the WDA is 20% annually.

However, cars with CO<sub>2</sub> emissions of 110g/km or less, such as the Honda Civic Hybrid, have a WDA of 100% of their value in the first year; this will continue until 31 March 2013. Company car fleets with low emission vehicles will therefore enjoy substantial reductions in their annual tax bill.

BIK Band Add 3% for diesels, up to a maximum of 35% Hybrid cars go in the new 10% band	CO <sub>2</sub> emissions in g/km		
	2007/8	2008/9	2009/10
10%	n/a	120	120
15%	140	135	135
16%	145	140	140
17%	150	145	145
18%	155	150	150
19%	160	155	155
20%	165	160	160
21%	170	165	165
22%	175	170	170
23%	180	175	175
24%	185	180	180
25%	190	185	185
26%	195	190	190
27%	200	195	195
28%	205	200	200
29%	210	205	205
30%	215	210	210
31%	220	215	215
32%	225	220	220
33%	230	225	225
34%	235	230	230
35%	240	235	235

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## A quick example of how to calculate Benefit In Kind (tax year 2008/9):

- Car – Honda Civic Hybrid ES
- On the road (OTR) price – £17,105
- P11D value of car (list price minus OTR charges) – £17,035
- The CO<sub>2</sub> emissions – 109g/km
- The calculation – check the Civic Hybrid's CO<sub>2</sub> output on the chart; it's in the 10% bracket. Multiply the P11D value of £17,035 by 10% and you get a rounded up figure of £1,704 – that's the amount your Hybrid-driving employee will pay tax on annually. For an employee taxed at 20% that equates to £341. For a 40% earner it amounts to £681.

The BIK figure changes from car to car, and if your employee contributes toward the cost of the car or any accessories, this affects the final figure as well. The HM Revenue & Customs website at [www.hmrc.gov.uk/calcs/cars.htm](http://www.hmrc.gov.uk/calcs/cars.htm), provides an in-depth explanation of the changes to car benefit rules in 2008/9. Their online calculator takes into account the current revisions and requirements, and is well worth using if you're unsure how BIK affects you.

## And if your employees get 'free' fuel?

If you supply your employees with fuel they can

use for private mileage, there's tax to pay.

- For the 2007/8 tax year the Inland Revenue had a set figure for what that benefit was worth of £14,400.
- With the rising cost of fuel, for the 2008/9 tax year the Inland Revenue has reset that figure to £16,900.
- The amount of tax to pay is again determined by a car's CO<sub>2</sub> output, using the same percentage bands as you find in the BIK table.

## A quick example of how to calculate fuel benefit tax liability (tax year 2008/9):

- The car – Honda Civic Hybrid ES
- The P11D value of the fuel benefit – £16,900 (figure set by the Inland Revenue)
- The CO<sub>2</sub> emissions – 109g/km
- The calculation – check the Civic Hybrid's CO<sub>2</sub> emission on the chart; it's in the 10% bracket. Multiply the Fuel Benefit P11D value of £16,900 by 10% and you get £1,690 – that's the amount your employee will pay tax on annually. For an employee taxed at 20% that equates to £338. For a 40% earner it's £676.

Fuel Benefit tax liability is different for other cars, so you will need to find your appropriate calculation bracket. It also changes if your

employee makes some payments towards the cost of the fuel; again, the calculator at [www.hmrc.gov.uk/calcs/cars.htm](http://www.hmrc.gov.uk/calcs/cars.htm) will help.

## Class 1A National Insurance Contributions

As with all other company car taxes, the Class 1A National Insurance Contributions you pay are affected by the CO<sub>2</sub> emissions of your fleet.

While the National Insurance Contribution remains at 12.8% of the car's taxable value, that taxable value is now derived from multiplying the P11D value by the new BIK tax bands detailed in our table. So using the example of our Civic Hybrid again, its P11D value is £17,035 which, thanks to its low CO<sub>2</sub> emissions, means it is taxed at 10% (for details, see the BIK tax calculation example). Therefore you would multiply its taxable value of £1,703 by 12.8% to arrive at a National Insurance Contribution of £218.

Another example is the Volkswagen Golf 1.9 TDI Match DSG. It has a P11D value of £17,520, and because it has CO<sub>2</sub> emissions of 153g/km and is a diesel, attracts a BIK tax banding of 21%, which equates to £3,679 – multiply that figure by 12.8% and you have a National Insurance Contribution of £471.