

Company Cars – Time to go Electric?

The age of the petrol and diesel car seems to be coming to an end. The Government have announced plans for the eventual ban on the sale of new petrol and diesel cars.

Whilst many drivers may have been reluctant to make the switch to electric, technological advancements have come a long way and batteries are now beginning to manage longer distances between charges, which was once a major turn-off for a majority of people. Not to mention the numerous financial benefits that come from road tax exemption and hugely reduced running costs compared to petrol or diesel alternatives.

The initial outlay can be high, but this should reduce as technology improves and demand increases. There are also interest free loans available.

We will briefly outline some of the tax and non-tax incentives that are available should you wish to go electric.

Capital Allowances

The biggest tax incentive for businesses is the availability of the 100% first year allowance (FYA).

New electric cars, and some hybrids with CO2 emission of less than 50g/km, are eligible for this allowance.

This provides an incentive over more traditional cars, where you can only claim a writing down allowance of 18% if the CO2 is 110 g/km or less, or 6% if it is more.

As an example, if you were to purchase a £50,000 petrol car, with CO2 of 120 g/km, your tax relief would be phased in over a number of years, and in the first year a company would only receive a tax benefit of £570.



Buying a similarly priced pure electric vehicle allows the whole cost to be written off in the first year, providing a tax saving of £9,500 for companies.

The tax savings can be even more generous for partnerships and sole traders who are taxed at income tax rates, with those on higher incomes potentially able to achieve tax relief of up to 48% in Scotland (46% income tax and 2% NIC).

As well as the car itself, the 100% FYA is also available on the costs of purchasing and installing new charging point equipment at the business, or an employee's home (more on that point later).

Benefit in Kind

The next tax break is in relation to the benefit in kind rules.

If a car is made available to an employee or a director for any private use, including commuting, then a benefit in kind will arise and income tax and NIC will fall due.

The value of the benefit is determined by a combination of the list price (cost when new), and the CO2 emissions of the vehicle.

In recent years, it has become less beneficial to have a company car, with the high benefit in kind rates meaning that an employee using their own car and claiming business mileage is generally the better option.

This may be about to change though for electric cars, as from 2020/21, a new 0% rate will apply

to pure electric cars registered prior to 6 April 2020.

The 0% rate will also apply to company cars registered after 6 April 2020, with emissions from 1-50g/km and which have an electric mile range of 130 miles or more.

Whilst both are scheduled to increase to 1% in 2021/22 and 2% in 2022/23, this is still much less than the rates applicable to more traditional cars.

Additionally, there is favourable treatment when it comes to the provision of fuel for electric vehicles.

The standard amount against which personal fuel benefit is assessed currently sits at £24,100. This can add a nasty sting to what can be an already high car benefit.

For pure electric vehicles however, there is no fuel benefit, as electricity does not constitute a “fuel” in the tax legislation.

Things get even better when you consider that no benefit in kind arises on an employer installing an electric charging point at an employee’s home, or providing a charge card to allow individuals access to commercial or local authority charging points.

Transport Scotland – Interest Free Loans

There is also help available towards funding the purchase of the car.

Individuals and businesses in Scotland can apply to Transport Scotland for interest free loans to help towards the cost of the vehicle.

Loans of up to £35,000 are available to individuals, with up to £120,000 available to businesses.

Further details, including who to contact, can be found at the following links:

[Individual - Electric Vehicle Loan](#)

[Business - Low Carbon Transport Business Loan](#)

All of the above makes now a great time to consider investing in a new electric car for your business. If you have any questions regarding electric vehicles for your business, please do not hesitate to contact us.

