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THE TAX BENEFITS OF ELECTRIC VEHICLES

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As electric cars become ever more accessible and the Government offers several tax advantages for low emission vehicles, their popularity continues to grow. We look at the tax benefits and what you need to be aware of when considering an electric or low emission vehicle.

Employee needs to know – company cars

P11D/CLASS 1A NATIONAL INSURANCE

The main element of the calculation applies a percentage to the list price of a company car. The CO2 emissions of the vehicle determine this percentage.

In the Autumn statement 2022, Jeremy Hunt announced that the Benefit in tax will remain at 2% till 2025 and then rise by 1% yearly until 2028 when they will review next steps.

Employee needs to know – vans

From April 2021, a zero-emission van is taxed at 0% of the benefit charge; therefore, there is no benefit in kind charge for an electric van regardless of use.

Employee needs to know – bikes

If you are looking at the tax position for two wheels rather than four, we need to distinguish between a bicycle with an electric motor and a motorbike. An electric bike must be pedal-assisted and cannot have a motor-powered top speed in excess of 15.5mph, and the electric motor must be less than 250 watts in power. Anything above this would be classed as a motorbike.

We need to distinguish between the two because they have very different tax treatments. An electric bicycle will still qualify for the Cycle To Work Scheme, so it can be provided without a P11D benefit in kind arising, providing the rules are followed to comply with the scheme.

However, there are no specific tax advantages for a motorbike, and these are taxed under general use of asset rules.

Employer needs to know - capital allowances

For expenditures incurred before 1st April 2021, a 100% First Year Allowance (FYA) was available for a new car that is an 'electrically-propelled' car or has low CO_2 emissions. An 'electrically-propelled' car is a car that is propelled solely by electric power (i.e., it is an All-Electric Vehicle or AEV). A car has low CO_2 emissions, where the emissions do not exceed 50g/km (typically, a Plug-in Hybrid Electric Vehicle, or PHEV).

For expenditure incurred on or after 1st April 2021, the FYA is restricted to new electrically propelled and zero-emission cars.

The rules are summarised in the table below:

EXPENDITURE INCURRED ON OR AFTER 1ST APRIL 2021

Type of car	Emissions	Capital allowance
New	Electric	100% FYA
	Zero	100% FYA
	CO_2 between 1g/km and 50g/km	18% WDA
	CO_2 more than 50g/km	6% WDA
Used	CO_2 up to 50g/km	18% WDA
	CO_2 more than 50g/km	6% WDA

Employer needs to know - leased cars

'Lease' can mean different things and, depending on what they mean, it can have a significant impact on the relief you will be able to get.

If you are, in essence, 'renting' it and intend to hand it back in the future, it is classed as an operating lease. This is different to a Personal Contract Purchase (PCP).

If the car has emissions under 50g/km, you can get tax relief on all of the payments, meaning only cars with CO2 below this can you claim full relief on the rental payments.

If the car's emissions are above 50g/km, 15% is blocked, so only 85% can be claimed for income tax or corporation tax purposes.

Employer needs to know - VAT

Under current law, an electric vehicle will still be viewed as a car for VAT purposes. Therefore, if there is any private use of the car, VAT is not recoverable on purchase. HOWEVER, the VAT can be reclaimed if the car is used 100% for business purposes, but this can be difficult to prove to HMRC.

A similar restriction also applies to leased cars. Where there is any private use of the car, only 50% of the VAT on the leasing charge can be recovered. Full VAT recovery, subject to the usual partial exemption and business use tests, is available on ongoing maintenance of leased cars.

Vans and motorbikes are not cars, so input VAT is claimable, subject to any adjustments for partial exemption and/or non-business use.

Electric charge points and charging costs

You can potentially claim 100% of the costs of installing an electric vehicle charging point as a capital allowance. The government extended the 100% First Year Allowance for electric vehicle charge points to 31 March 2025 for corporation tax purposes and 5 April 2025 for income tax purposes.

From 6th April 2018, when the company allows employees to charge their own electric vehicles at the workplace, there is no taxable benefit for the provision of that free electricity.

Where the driver of the company-owned electric vehicle pays for the electricity to power it, either from their domestic supply or by charging at a roadside station, the employer may reimburse the employee for that cost. The employer can pay the company car driver 9p per mile to reimburse them for the cost of the electricity used for business journeys with no tax implications (this is the rate from 1 March 2023). This rate only applies to company-owned electric cars, not to private vehicles.

Privately owned electric cars

Where the employee uses their own electric car for business journeys, the company can pay the normal tax-free mileage allowance to the individual of 45p per mile for the first 10,000 miles driven in the year, with additional business miles reimbursed at 25p per mile.

Self-employment and purchasing an electric car

If you are self-employed and own a car that you use for business, you have the opportunity to claim a capital allowance. Capital allowances vary depending on emissions; however, for new electric cars, the allowance is 100% of the cost of the vehicle (restricted to your business use). This means you can deduct the business element of the cost from your profits before you pay tax.

For example, if you bought a new electric car for £30,000, which was used 75% for business purposes in the year, you would be entitled to deduct £22,500 from your taxable profits in that year.

Self-employment and leasing an electric car

Leasing costs can be an allowable business expense, again subject to the business use element. If the car is leased solely for business purposes (this is hard to justify), then VAT is fully deductible; however, if there is any personal use, only 50% VAT is deductible.

So, tax relief for leasing an electric car is given each year depending on the cost and business use, contrasted with outright purchase, which provides an initial and one-off tax deduction.

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