Office for
Low Emission
Vehicles

FACTSHEET - Tax implications of ultra low emission vehicles

Ultra low emission vehicles (ULEVs) are vehicles that produce less than 75 grams of carbon dioxide (CO_2) for every kilometre travelled. These vehicles benefit from a number of tax benefits for both private and business ULEV users.

This factsheet summarises the taxes and benefits applicable to vehicle owners following Budget 2014, and confirms the current treatment of ULEVs in each instance. It covers:

A) Applicable to all vehicle users	B) Applicable to business users only
Fuel Duty - Electric vehicles are exempt from fuel duty.	**Taxation of Company Cars (CCT) - CCT for zero emission vehicles is set at 0% until 2015. Thereafter and until 2018, there will be a differential of four percentage points between the 0-50 and 51-75g/km CO2 bands and between the 51-75 and 76-94g/km bands.**
Vehicle Excise Duty (VED) - Electric vehicles are exempt from paying VED.	**Car Fuel Benefit Charge - as electricity is not a fuel, there is currently no fuel benefit charge.**
Value Added Tax (VAT) - electricity used to recharge a plug-in vehicle at home attracts only a 5% level of VAT, much lower than road fuels (20% level of VAT).	**Van Benefit Charge - vans with zero emissions are exempt from VBC until 5 April 2015. VBC support has been extended to 2020 on a tapered basis.**
	Van Fuel Benefit Charge - as electricity is not a fuel, there is currently no fuel benefit charge.
	Advisory Fuel Rates (AFR)
	Enhanced Capital Allowance (ECA) - all ULEVs and zero emission goods vehicles are eligible for 100% first year allowance until 2018.
	Authorised Mileage Allowance Payment (AMAP) - electric and hybrid cars are treated in the same way as petrol and diesel cars.
	Mileage Allowance Relief (MAR) - electric and hybrid cars are treated in the same way as petrol and diesel

A) Taxes applicable to all ULEV users

1. Fuel Duty

1.1 Fuel duty is paid on each litre of road fuel purchased (or per kilogram in the case of gases). Therefore the fuel efficiency of a vehicle, the way a vehicle is driven and the distance driven will determine the total amount of duty paid. Fuel Duty is currently set at 57.95 pence per litre for petrol, heavy oil, and biodiesel and bio-ethanol (May 2014).

1.2 Electricity is not subject to fuel duty, therefore battery electric vehicles are exempt from fuel duty.

2. Vehicle Excise Duty (VED)

2.1 Vehicle Excise Duty (VED) is a tax applicable to all vehicles driving on UK roads. The rate (for cars first registered after 1 March 2001) is based upon the car's carbon dioxide emissions (CO_2).

2.2 Post 2001 car VED is divided into thirteen CO_2 bands, with one rate payable in the first year (FYR), and then a separate, standard rate (SR) payable in all subsequent years (table 1).

Table 1 - VED Rates for post-2001 (diesel and petrol) cars in 2014-15			
Band	**CO_2 emission (g/km)**	**Standard Rate (£)**	**First Year Rate (£)**
A	Up to 100	0.00	0.00
B	101-110	20.00	0.00
C	111-120	30.00	0.00
D	121-130	110.00	0.00
E	131-140	130.00	130.00
F	141-150	145.00	145.00
G	151-165	180.00	180.00
H	166-175	205.00	290.00
I	176-185	225.00	345.00
J	186-200	265.00	485.00
K[1]	201-225	285.00	635.00
L	226-255	485.00	860.00
M	Over 256	500.00	1090.00

[1] Band K includes cars that have a CO_2 figure over 225g/km but were registered before 23 March 2006

2.3 Electric vehicles are exempt from paying VED and all vehicles that emit less than 100g CO_2 per km have a zero rate of VED. Cars that are not solely powered by petrol/diesel are classified as alternative fuel vehicles and subject to a £10 VED discount (for post 2001 registrations).

3. Value Added Tax (VAT)

3.1 Value added tax (VAT) is a consumption tax that is applied to the price of vehicles, their fuels and electricity. Vehicles are subject to standard levels of VAT (20%) regardless of their carbon footprint.

3.2 Electricity has varying treatment. Electricity that is supplied for domestic, non-business and charity use attracts 5% VAT, while electricity that is supplied for business use is subject to standard VAT (20%).

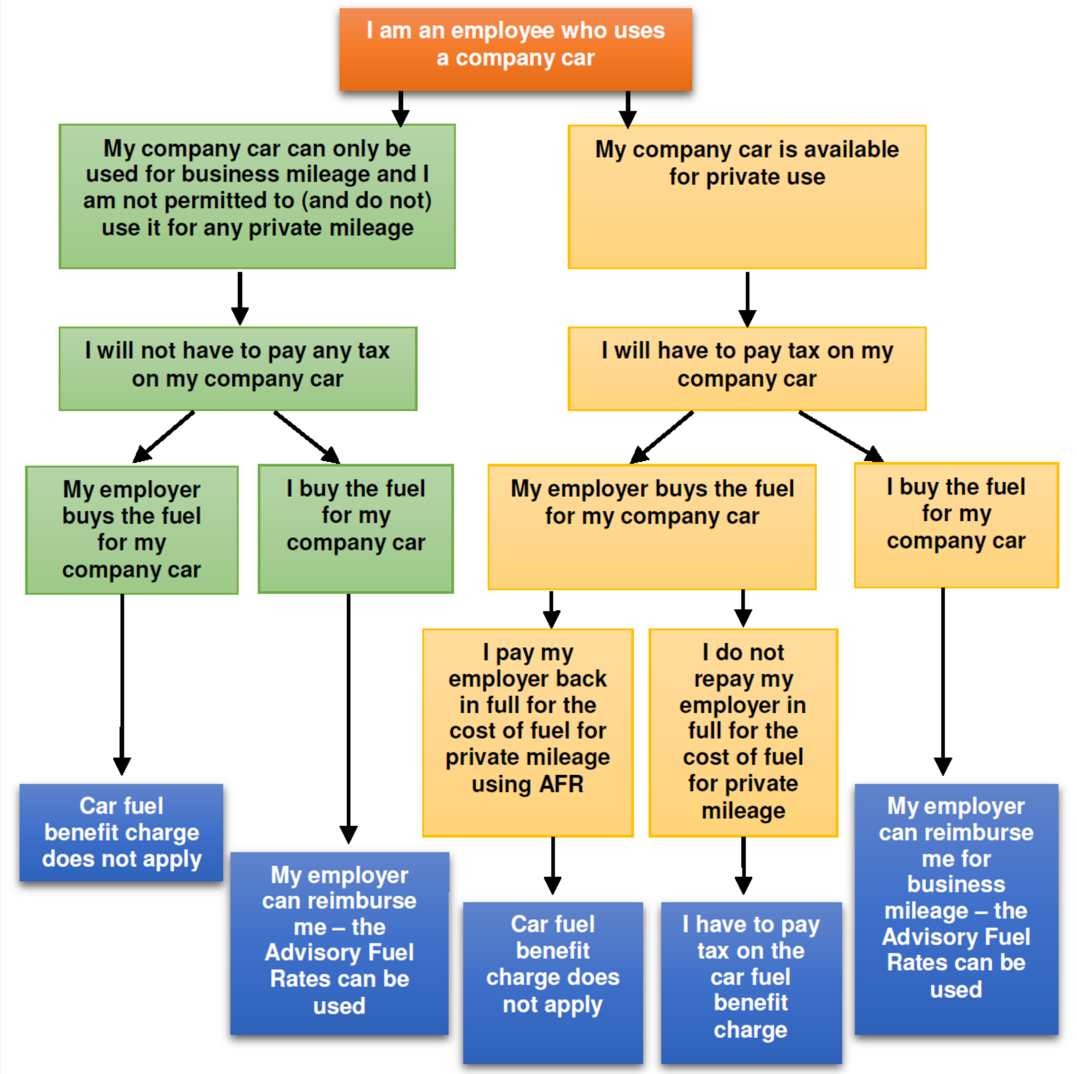
3.3 Petrol, Diesel and Hydrogen are considered to be road fuels and therefore also attract the standard level of VAT (20%).

3.4 Electricity that is used to recharge a wholly battery electric vehicle (BEV) or plug-in hybrid vehicle (PHEV) at home attracts a much lower level of VAT 5%. BEVS and PHEVs that are recharged at work will attract 20% VAT. Hydrogen used to refuel FCEVs will also attract 20%.

B) Taxes that are applicable to business users only

Company car flow chart

An employee that uses a company car may pay or be reimbursed for the use of their company car in a variety of ways. The following diagram may help to direct a company car user to the most helpful areas.



4. Taxation of company cars (CCT) - how the benefit in kind is calculated

4.1 The provision of a company car that is available for that employee's private use is a Benefit in Kind (BIK)[2]. As such, it is subject to income tax (for the employee) and employer Class 1A National Insurance Contributions.

4.2 The benefit is normally valued as an 'appropriate percentage' of the car's total list price (manufacturer's list price when new plus any accessories - the value reportable on a P11D). The appropriate percentage is dependent upon the car's CO_2 emissions (see table below) and fuel type.

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[2] An employee may benefit from their employment by receiving a benefit that does not take the form of money. These are often called benefits in kind.

The emissions figure can be found on the car's registration document (V5C). The company car benefit is then subtracted from the employee's personal tax free allowance, resulting in them paying tax on a greater proportion of their salaried income.

4.3 A calculator is available here: http://www.hmrc.gov.uk/calcs/cars.htm and rates are shown in the table below for zero emission vehicles and some of the lower CO_2 vehicles.

Table 2 - The 'appropriate percentages' for Benefit in Kind Taxation

CO_2 Emissions (g/km)	2014-15		2015-16		2016-17	2017-18
	Appropriate Percentage					
	Petrol	Diesel	Petrol	Diesel	Petrol & Diesel	Petrol & Diesel
Zero	0	0	5	8	7	9
0-50	5	8	5	8	7	9
51-75	5	8	9	12	11	13
76-94	11	14	13	16	15	17
95-99	12	15	14	17	16	18
100-104	13	16	15	18	17	19
105-109	14	17	16	19	18	20

4.4 The appropriate percentage increases by 1 percentage point (ppt) for each increase of 5g CO_2 per km, to a maximum of 35% until 2014-15, and to a maximum of 37% in 2015-18.

4.5 For company cars which are fuel-electric hybrids or all-electric and have a rechargeable battery, the list price of the vehicle must always include the cost of the battery, whether or not it is leased separately. If an employer leases a battery for an employee's company car, there is a taxable benefit, which would normally be based on the cost to the employer.

4.6 Ultra low emission vans are not affected by CCT because they are subject to Van Benefit Charge.

5. Car Fuel Benefit Charge – how the benefit in kind is calculated

5.1 Car fuel benefit charge is levied on employees who receive free fuel from their employer and a portion of it is used for private mileage in a company car which is not repaid in full by the employee. A tax must be paid on the cash equivalent of the benefit-in-kind represented by that fuel. The value of this benefit is calculated by using the appropriate percentage of the vehicle times a 'multiplier'.

5.2 For 2014-15, the car fuel benefit charge is calculated by multiplying £21,700 by the appropriate percentage. As with company car tax, the employee then pays income tax on this amount. More information on Fuel Benefit Charges can be found on the HMRC website.[3]

5.3 There is no car fuel benefit charge if employees repay the cost of their private mileage in full. They may use the rates published by HMRC – the advisory fuel rates (AFRs) – to do so which can be found here.[4]

5.4 As electricity is not a fuel, there is currently no fuel benefit charge. This means that if an employer allows an employee with a company or personally owned car to top up the battery of their BEV, PHEV or E-REV at work, this does not fall under car fuel benefit charge.

5.5 In relation to electric car charging stations, the provision by an employer of a charging station for an employee to charge a private electric car gives rise to a benefit-in-kind. In general terms, a benefit-in-kind is liable for tax and National Insurance contributions. If, however, the employer considers the benefit to be a 'trivial benefit', the employer can apply to HMRC for agreement to exclude the benefit from reporting grounds. Information about trivial benefits can be found on the HMRC website[5].The Government recognises that this is a developing area and keeps the tax rules under review to ensure that they remain effective in promoting take up of cleaner cars but also remain consistent with the Government's wider deficit reduction plans.

6. Van Benefit Charge (VBC) – how the benefit in kind is calculated

6.1 Van benefit charge is levied when employers provide employees with a van for private (as well as business) use. The charge is set at a flat rate (currently £3,090 in 2014-15) and the employee pays income tax on this amount and the employers pays NICs. The charge does not apply if the private use of the van is only ordinary commuting or is otherwise incidental.

6.2 Vans with zero emissions (i.e. electric vans) are exempt from VBC until 5 April 2015. At Budget 2014 the Government announced the VBC support for electric vans will be extended to 5 April 2020 on a tapered basis. In 2015-16 the VBC rate paid by electric vans will be 20% of the rate paid by conventionally fuelled vans, followed by 40% in 2016-17, 60 percent in 2017-18, 80% in 2018-19 and 90% in 2019-20, with the rates equalised in 2020-21. The Government will review VBC support for zero emission vans in light of market developments at Budget 2016.

7. Van Fuel Benefit Charge - how the benefit in kind is calculated

7.1 If an employer gives an employee a van to use which is subject to the van benefit charge and pays their fuel, they will need to pay a fuel benefit charge. Van Fuel Benefit Charge is based on a flat rate charge (currently £581 for 2014-15).

7.2 The Government announced at Budget 2014 that the car and van fuel benefit charges for 2015-16 will increase by inflation (based on September 2014 Retail Price Index (RPI)).

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[3] http://www.hmrc.gov.uk/budget2012/tiin-2008.pdf
[4] http://www.hmrc.gov.uk/cars/advisory_fuel_current.htm
[5] http://www.hmrc.gov.uk/payerti/exb/a-z/t/trivial-benefits.htm

7.3 As above, electricity is not a fuel; therefore, there is currently no fuel benefit charge. This means that if an employer allows an employee with a company or personally owned car to top up the battery of their BEV, PHEV or E-REV at work, this does not fall under Van fuel benefit charge. Para 4.6 sets out the tax position.

8. Advisory Fuel Rates (AFR)

8.1 Advisory Fuel Rates (AFR) apply to company cars. They provide an average cost per mile depending on the engine size and fuel type of the car, which an employee can use to reimburse their employers for the cost of private mileage where an employer provides free fuel for a company car. They may also be used to reimburse employees for business mileage when the employee buys the fuel for their company car. If a company chooses to reimburse an employee with a company car for fuel used for business, this is not considered to be a taxable benefit.

8.2 AFRs are a pence-per-mile rate which HMRC publishes on a quarterly basis to help employers – they are not mandatory. The rates are based on average UK pump prices of various fuels, and data on fuel efficiency provided by the car manufacturing sector. They allow employers to use an average figure depending on engine size and fuel type rather than having to keep detailed records for each vehicle.

8.3 Employers are free to use the actual cost of fuel if they wish. But they will need to keep records to demonstrate how they have arrived at the calculation and may not use an averaging method over a number of cars. The latest rates are available on the HMRC website.[6]

8.4 If you have a petrol-hybrid car, you can use AFR petrol rates; if you have a diesel-hybrid car, you can use AFR diesel rates. There is no HMRC set AFR equivalent for pure electric vehicles because electricity is not considered to be a fuel for the purposes of Car Fuel Benefits legislation.

9. Enhanced Capital Allowances (ECA)

9.1 Eligibility for Enhanced Capital Allowances (ECA) for cars are based on their CO_2 tailpipe emissions. Cars purchased from 1 April 2013 with CO_2 tailpipe emissions:

- Over 130g/km qualify for the standard allowance. This is called a 'writing down allowance' and allows 8% a year of the value to be offset against income.
- Over 95 g/km to 130g/km qualify for writing down allowances at 18% a year.
- If car emits 95 g/km or less it can qualify for a 100% first-year allowance but they must be new and not second-hand. Cars that are leased also do not qualify. It has been announced that this emission threshold will change to 75g/km for the period April 2015 to March 2018.

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[6] http://www.hmrc.gov.uk/cars/advisory_fuel_current.htm

- Zero-emission goods vehicles are also eligible for 100% first-year allowances until March 2015 and it has been announced that this will be extended to 2018.

9.2 The table below details the writing down allowances available for cars based on their CO_2 emissions since April 2012. The rate in force for the year that the car is purchased is used for the entire period of ownership of the car by your business. However, all future rates and thresholds could be changed in future Budgets should the Government decide to make such changes.

Table 3 - Cars and writing down allowances					
	2013-14	**2014-15**	**2015-16**	**2016-14**	**2017-18**
First Year Allowance (100%). Does not apply to used cars	95g or less	95g or less	75g or less	75g or less	75g or less
Write Down Allowance (18%). For new cars see FYA above.	up to and including, 130g	up to and including, 130g	up to and including, 130g	up to and including, 130g	up to and including, 130g
Write Down Allowance (8%).	>130g	>130g	>130g	>130g	>130g

9.3 Subject to Parliamentary approval, all ULEVs (75g or less CO_2/km) and zero emission goods vehicles will be eligible for 100% First Year Capital Allowances (FYAs) for the period April 2015 to 2018.

9.4 100% first-year allowances are also available for businesses that install gas refuelling equipment for vehicles that require natural gas, hydrogen or biogas until March 2015. Subject to Parliamentary approval this will be extended to March 2018.

9.5 Eligible equipment can include:

- storage tanks
- compressors
- controls and meters
- gas connections
- filling equipment

10. Authorised Mileage Allowance Payment (AMAPs)

10.1 Authorised Mileage Allowance Payments are applied to employee owned vehicles that are being used for the business.

10.2 AMAPs provide the pence per mile rate at which HMRC allows employers to reimburse their employees for business travel in employee owned vehicles, without liability to income tax or NICs. If a reimbursements in excess of the AMAPs rates are made, the excess is reportable to HMRC for tax and NICs purposes.

10.3 For the purposes of AMAPs electric and hybrid cars are treated in the same way as petrol and diesel cars. The latest rates can be found on the HMRC website.[7]

10.4 Self-employed taxpayers may also use authorised mileage rates to compute their vehicle expenses. If they claim mileage rates they cannot claim capital allowances or actual running costs. If they have previously claimed capital allowances in respect of a vehicle then they cannot use mileage rates for that vehicle.

11. Mileage Allowance Relief (MAR)

11.1 If a business does not fully reimburse an employee for the cost of business mileage in the employee's own car, that employee is entitled to apply to receive a mileage allowance relief for the remainder of this amount. This is called a Mileage Allowance Relief (MAR), and it is applied for the year that the employee:

- used their own vehicle (car, van, motor cycle or cycle) for business travel; and
- received lower mileage allowance payments than the approved amount applicable to that kind of vehicle.

11.2 More information can be found on the HMRC website.[8]

11.3 For the purposes of MAR electric and hybrid cars are treated in the same way as petrol and diesel and are entitled to apply for Mileage Allowance Relief if they are not benefitting from the full AMAP.

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[7] http://www.hmrc.gov.uk/rates/travel.htm
[8] http://www.hmrc.gov.uk/manuals/eimanual/eim31330.htm