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If you provide your employees with company cars or company vans, or if your employees use their own vehicles for work, you may wish to consider switching to electric vehicles to take advantage of some of the tax breaks that are on offer.

Although the tax charges for electric and low emission cars are to rise from April 2025, employers and employees who make green choices will continue to pay less tax and Class 1A National Insurance than those who do not.

### **Company cars**

If you provide an employee with a company car that is available for the employee's private use, the employee is taxed on the resulting benefit.

The amount charged to tax depends, predominantly, on the list price of the car and the level of its CO2 emissions.

To encourage drivers to adopt low-emission cars, drivers of electric and low emission cars pay less tax than those choosing higher emission models.

Drivers of diesel cars not meeting the RDE2 emissions standard pay an additional supplement. For 2022/23 to 2024/25 inclusive, the amount that is charged to tax in respect of an electric company car is 2% of the list price of the car and optional accessories (as reduced by capital contributions of up to £5,000). The taxable amount is adjusted to reflect certain periods of unavailability and any contributions for private use.

The low charge means that an electric company car is a very tax-efficient benefit.

For example, the taxable amount for electric car with a list price of £30,000 is set at only £600 for 2023/24. Consequently, a basic rate taxpayer would only pay £120 in tax for the benefit of having an electric company car available for their private use throughout 2023/24. For a higher rate taxpayer, the tax hit is only £240.

Employers and employees who are not yet ready to embrace fully electric cars can consider a low emission model. For cars in the 1 to 50g/km emissions bracket the tax charge also depends on the electric range of the car, with cars with an electric range of at least 130 miles benefitting from the same appropriate percentage as electric cars – 2% for 2022/23 to 2024/25 inclusive.

The Office of Budgetary Responsibility estimate that by 2025, 50% of new cars will be electric. From April 2025, the tax payable on an electric company car is to be increased. The appropriate percentage will rise by one percentage point a year for three years from 2025/26. As a result, the charge will be 3% in 2025/26, 4% in 2026/27 and 5% in 2027/28. The charge for low emission cars is similarly increased, with the charge for those with an electric range of 130 miles or more remaining aligned with that for electric cars.

As an employer, you must pay Class 1A National Insurance contributions on the total, taxable benefits paid to employees.

For 2023/24, this is payable at the rate of 13.8%. Consequently, the lower the benefit tax charge for employees, the lower your associated Class 1A National Insurance bill.

As an added incentive, you can claim a 100% first-year capital allowance for any new and unused electric cars that you purchase.

## **Car fuel benefit charge**

HMRC do not regard electricity as a 'fuel' for the purposes of the fuel benefit charge.

Consequently, if you provide or meet the cost of electricity for an employee's private mileage in an electric company car, the employee will not be taxed on that provision, and there is no Class 1A for you to pay.

If an employee with a company car meets the cost of electricity for business journeys, you can make a mileage payment tax free as long as the amount paid is not more than the advisory fuel rate at that time. From 1 December 2022, the tax-free rate is 8 pence per mile.

By comparison, company car drivers of hybrid or petrol/diesel fuelled vehicles could be paying a significant, additional tax charge if their employer meets private fuel costs. Where fuel is provided for private journeys in a non-electric company car, the taxable amount for 2025/24 is the appropriate percentage used to calculate the car tax benefit multiplied by £27,800.

## Workplace charging

A tax exemption applies if you provide electric charging facilities which can be used by employees to charge their cars.

The exemption applies when the charging facilities are used by an employee to charge their own car or a car in which they are a passenger (for example, a car used to give an employee a lift to work).

The exemption is not relevant to company cars –there is no fuel benefit charge if the employee meets the cost of electricity for private mileage in a company car.

The exemption only applies to charging facilities that are provided at or near the workplace and which are available to your employees generally. It does not apply if you reimburse an employee for the cost of charging their vehicle away from the workplace.

If you invest in electric charge points you will be able to claim a 100% first-year allowance, obtaining immediate relief for the expenditure. The expenditure must be incurred on or before 31 March 2025 for corporation tax purposes and on or before 5 April 2025 for income tax purposes.

## Company vans

A tax charge arises under the benefit-in-kind rules if a company van is available to an employee for their unrestricted private use. No charge arises if private use is restricted to home to work travel.

There is no tax charge if an employee has unrestricted private use of an electric company van. By contrast, the amount charged to tax for 2023/24 where an employee has unrestricted private use of a van other than an electric van is £3,960. Choosing an electric company van will save an employee paying tax at the basic rate £792 in tax and an employee paying tax at the higher rate £1,584 in tax.

Employers will also save Class 1A National Insurance of £546.48.

As with company cars, electricity is not regarded as a 'fuel' for the purposes of the fuel scale charge. Consequently, if you meet the cost of electricity for unrestricted private mileage in a company van, there is no associated fuel benefit charge. By contrast, if fuel is provided for private journeys in a non-electric company van which is available for unrestricted private use, a taxable benefit of £757 arises.

## We can help

As the infrastructure for recharging electric vehicles expands, and with our aims to meet climate change obligations, the tax incentives set out above are the icing on the cake.

If you are considering your options and need advice on the tax benefits, please call.

We can help you formulate a tax-efficient company vehicle policy and explain the tax implications of your vehicle choices.

Please call us on **01753 888 211** or email **info@nhllp.com** if you need guidance with any of the issues raised in this Broadcast. We would be happy to help.