

Wheels for work –



Company cars and whether or not they represent good 'value' for employees, and cost-effective perks for employers, has been hotly debated in recent years. The perk of a company car is a highly-taxed benefit in kind in the hands of an employee, while the tax reliefs available to the employer for providing such a perk are not particularly attractive. But

although the number of companies offering company cars as a perk has reduced considerably, with many now opting for a package that includes a car allowance, company cars remain an issue for companies.

The 'expensive cars' capital allowances and the restrictions for deductions for more tax-efficient car hire expenses have been abolished by draft legislation introduced on 1 April 2009, following proposals in the 2008 Budget. These have been replaced by new rules that have an environmental focus, and are based on car emissions. The aim is to encourage businesses to buy 'clean' cars by offering them cashflow advantages for acquiring very low-emission cars.

These new rules have effect for expenditure incurred, or leases entered into, on or after 1 April 2009 for limited companies and 6 April 2009 for unincorporated businesses.

Qualifying expenditure for car purchase

Qualifying expenditure incurred on the purchase of cars on or after these dates is dealt with in one of three ways,

depending on the CO₂ emissions of the car:

1. Expenditure on cars with CO₂ emissions of no more than 110g/km will attract a 100% first-year allowance (this relief has of course already been available).
2. Expenditure on cars with CO₂ emissions from 111g/km to 160g/km is included in the main plant and machinery pool and attracts a WDA of 20%.
3. Expenditure on cars with CO₂ emissions exceeding 160g/km is included in a special rate pool and attracts a WDA of 10%.

Example

Under the 'old' rules, a car costing £15,000 and with CO₂ emissions >160g/km would have attracted capital allowances totalling £8,250 during the first three years of ownership, and would have attracted a balancing allowance or charge on disposal.

Under the new rules, the same car will attract capital allowances of only £4,065 during the first three years of

WDAs	Emissions >160g/km	
	Mar-09 Cost	Apr-09 Cost
	15,000.00	15,000.00
Year 1	-3,000.00	-1,500.00
WDV	12,000.00	13,500.00
Year 2	-3,000.00	-1,350.00
WDV	9,000.00	12,150.00
Year 3	-2,250.00	-1,215.00
WDV	6,750.00	10,935.00
Year 4		
Sale proceeds	-5,000.00	-5,000.00
Balancing allowance/WDA	1,750.00	594
WDV	-	5,341
Total allowances	-10,000.00	-4,659.00

New rules announced in this year's Budget aim to steer companies towards buying greener vehicles as company cars. *Lesley Stalker* outlines the changes

ownership and, on disposal, there will be no balancing allowance or charge, but the balance remaining of the original cost will continue to be held in the special rate pool, and will continue to be written down. Unbelievably, it will take a further 121 years until the cost of the car is effectively fully relieved (I know because I've done the entire ridiculous calculation on a spreadsheet!)

See chart below left

Cars purchased before the dates of change remain in the 'old' regime until sold. However, on the fifth anniversary of the change of rules, any cars remaining will be brought into the new regime by transferring them to the appropriate pool at tax written down value.

Cars that have an element of non-business use will continue to be dealt with in single asset pools to enable the private use adjustment to be made, with the rate of WDAs being determined by the car's CO₂ emissions, in accordance with the general rules.

Note that motorcycles are excluded from the definition of cars and are not therefore subject to these new rules. Expenditure incurred on motorcycles after the dates of change will qualify for AIA, FYA and to be treated as short-life assets.

Practical points

- It will now be necessary, when preparing clients' accounts, for the CO₂ emissions of every car to be recorded, and to ensure the actual date of purchase is known for periods straddling the change of rules.
- Cars driven by partners and owners of unincorporated businesses will need to be kept in single asset pools to enable private-use adjustments to be calculated.

Guidelines for leasing a company car

The calculation of the restriction of car lease rental payments for expensive cars is also reformed from the relevant dates.

The new rules are also based on emissions, and the amounts for which relief can be claimed are dealt with in one of two ways:

1. Cars with emissions of up to 160g/km suffer no restriction at all on the lease payments, irrespective of the price of the car, therefore the full amount of the lease payments can be claimed.
2. Cars with emissions exceeding 160g/km have a flat rate disallowance of 15% of the relevant payments.

Example 1

A car costing £50,000 with emissions exceeding 160g/km.

If purchased prior to April 2009, the allowable portion of the lease cost is:

$$(\pounds 12,000 + \frac{1}{2} (\pounds 50,000 - \pounds 12,000)) / \pounds 50,000 = 62\%$$

If purchased April 2009 onwards, the allowable portion of the lease cost is 85%.

Example 2

A car costing £50,000 with emissions of up to 160g/km.

If purchased prior to April 2009, the allowable portion of the lease cost is:

$$(\pounds 12,000 + \frac{1}{2} (\pounds 50,000 - \pounds 12,000)) / \pounds 50,000 = 62\%$$

If purchased April 2009 onwards, the allowable portion of the lease cost is 100%.

Practical points

1. It may now prove more cost-effective for clients to lease cars rather than purchase outright or via

hire purchase. As you can see from the above examples, in many cases businesses will now receive more tax relief for the costs of leasing cars than they will for the costs of purchasing them, where the cost takes literally forever to be fully relieved!

2. However, car leasing is likely to become more expensive to reflect the loss of capital allowances available to the leasing companies, so watch out for this.

Guidelines for hire 'chains'

Whereas the current lease payment restriction rules apply to all links in a chain of leases, the new rules aim to make this simpler by applying to one lease only in any chain. To this end, businesses will not be subject to a restriction of their allowable lease rental payments where a car is made available to them for a period of no more than 45 consecutive days. Also, a business will not be subject to the restriction for expenses it incurs in hiring a car that it makes available to a customer for a sub-hire period of *more than* 45 consecutive days. This does not however apply to cars made available to an employee or to the employee of a connected person.

Where a business hires a car for more than 45 days, and does not sub-hire it, the restriction will apply. The hire periods or sub-hire periods can be aggregated to determine whether the period exceeds 45 days.

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