

From this April, there was a fundamental change in the taxation basis of business cars. It could save your company hundreds of pounds. Get it wrong, though, and expect to see the red ink flowing. *Business Car Manager* editor **Ralph Morton** on the key tax changes – and what you need to know



...AND WHY IT WILL BE SMART TO LEASE

So what's happening?

The changes to the tax rules commence for all new business car expenditure from 01 April 2009 for companies; and 06 April 2009 for partnerships and the self-employed.

Old methods of accounting for business car expenditure are out; new methods are coming in. And it's all based around CO₂ emissions.

The key emissions figure to remember is 160g/km. In a nutshell, cars with emissions of 160g/km and below will cost your company less; cars with emissions of 161g/km and above have the potential to cost your business considerably more.

It's the government's way of pushing us down a lower emission route for our business cars through taxation.

In terms of business cars and taxation this is the biggest change to the tax laws since the 2002 introduction of the CO₂ emission-based company car tax. ▶

It's all change for the way your company accounts for its business cars. New rules are based on CO₂ emissions. So is it time to consider changes to the cars you run?



If you haven't considered contract hire leasing your cars do so now. It could save you money



TAX CHANGES TO CONTRACT HIRE IN BRIEF

Cars with emissions of 160g/km and below will be able to set 100% of the net contract hire rental against tax.

Cars with emissions of 161g/km and above will be able to set 85% of the net contract hire rental against tax.

If you lease second hand or nearly new cars, the same rules apply.

Note: these changes are for all business car expenditure incurred after 01 April 2009, or 06 April 2009 for partnerships and the self-employed. Business cars on contract hire rental before this date will be subject to the existing *Expensive Car Leasing Disallowance* and half the excess rule.

◀ Why leasing should become more attractive

If you contract hire your company cars, the method of calculating how much of the cost of the car can be set against tax is complex.

The threshold is set at cars costing £12,000. If you contract hire a car below this cost then the charges are fully tax deductible. Above this cost, then the *Expensive Car Leasing Disallowance* comes into play, also known as the 'half the excess' rule.

It goes like this.

Allowable = $\frac{\text{£12,000} + 1/2 (\text{retail price} - \text{£12,000})}{\text{retail price}} \times \text{net rental}$

Let's take a car costing £24,000. Its monthly net rental is £300. The calculation works out like this:

Example: Rental payable £300 per month (net of VAT)
Retail price of car £24,000
Allowable = $\frac{\text{£12,000} + (1/2 \times (\text{£24,000} - \text{£12,000}))}{\text{£24,000}} \times \text{£300}$
= £18,000
= $18 \div 24 \times \text{£300}$
= £225

In other words, £75 of the net rental is unclaimable. Now, let's do the same thing again but under the new tax rules.

Cost of car: £24,000
CO₂ emissions: 157g/km
Net rental: £300
Amount claimable against tax (100% of rental): £300

Isn't that great! That's £75 clawed back instantly over the old scheme. But what if your car's CO₂ emissions are 161g/km or above? What then? Well, it's still not calamitous – just not quite as good. In these circumstances only 85% of the contract hire rental will be allowable against tax. Here's the same example again. ▶

- ◀ **Cost of car: £24,000**
CO₂ emissions: 165g/km
Net rental: £300
Amount claimable against tax (85% of rental): £255

The amount is less than if your car were under the 160g/km tax bar – but it's still better than the old taxation method.

So if you haven't thought about leasing your business car before, then now could be the time to reassess that opinion. The chances are there are tax savings to be made – particularly if your car has CO₂ emissions of 160g/km and under.

What about buying business cars?

There are huge changes here, too – from 01 April 2009 for companies, or 06 April 2009 for partnerships and the self-employed.

Again, the key emissions figure is 160g/km. Buy a car with emissions below 160g/km and you should be ok. But buy a car with emissions of 161g/km or more and then it's likely to cost you some serious money.

It's all to do with the changes to the capital allowances on business cars and the amount of writing down allowance available.

Let's have a look at the existing system that runs until April 2009.

Currently there's a writing down allowance of 25% each year on the cost of the business car, with a cap set at £3000. This only applies to 'expensive' cars – those costing in excess of £12,000.

It means that a business can write down the cost of the car up to £3000 each year on a 'reducing balance' basis until the business car is sold. At that point there's a balancing charge – in effect you get tax relief for the amount of the car new minus its depreciation.



The key point to grasp is this: go for cars with emissions of 160g/km and below

All change

From April 2009 the amount you can write down will be calculated in three different ways – depending on the CO₂ emissions of the business car.

Let's start with the good bit first.

Cars with emissions up to 110g/km CO₂

There's a 100% writing down allowance available for these cars. This generous allowance continues until 31 March 2013. There are many new cars that fall into this category, including hybrids.

All good, but the number of cars with emissions below 110g/km is growing but still limited. So let's move onto the 'not so bad' category.

Cars with emissions 111g/km to 160g/km CO₂

This is the key capital allowances band. Business cars falling in this category can be written down on a reducing balance basis at 20% per year. They are placed with general assets.

However...the old concept of a balancing charge has been swept away. So when the car is sold, it will remain on your company's books on a reducing balance basis for some considerable time.

Now let's move onto the category I've called 'you really don't want to be doing this'. ▶

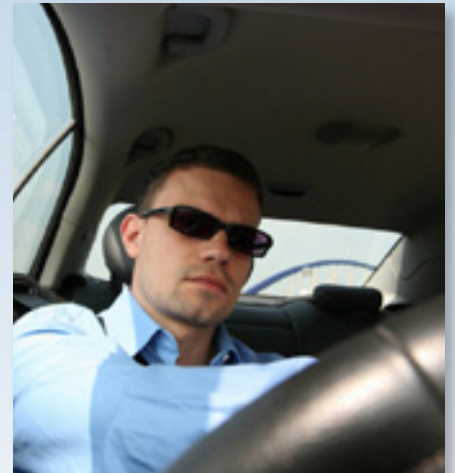
◀ Cars with emissions above 161g/km CO₂

If you buy your business car and its CO₂ emissions are greater than 160g/km then it will be placed in a separate pool and written down at just 10% per annum on a reducing balance basis (there is no maximum allowance of £3000 as previously). Like the 111g/km to 160g/km group, there is no balancing charge.

It means you will be depreciating the car many, many years after it has been sold – possibly as many as 20 years into the future before you can fully reclaim the tax relief on the depreciation. Which doesn't sound like such a good deal.

Here's what Deloitte's Nigel Morris has to say on the matter:

"From 01 April 2009, corporation tax relief will be significantly affected by the CO₂ emissions of the car. The new rules push some of the tax relief into the future so that, in some cases, a large part of the tax relief is delayed until years after the car is sold. There is clearly a cost associated with this."



Driving into the future means choosing more fuel efficient cars. That way your business can make the most of the tax breaks on offer

TAX CHANGES TO CAPITAL ALLOWANCES IN BRIEF

Cars with emissions up to 110g/km get full first year writing down allowance (until 2013).

Cars with emission between 111g/km to 160g/km placed in general asset pool and written down on a **20% reducing balance** basis. No balancing charge.

Cars with emission from 160g/km and above placed in special pool and written down on a **10% reducing balance** basis. No balancing charge.

Note: these changes are for all business car expenditure incurred after 01 April 2009, or 06 April 2009 for partnerships and the self-employed. Business cars purchased before April 2009 will be subject to the current capital allowance method.

What if I buy used cars?

Essentially the same rules apply, according to new clarification obtained from the BVRLA (British Vehicle Rental & Leasing Association). Second hand cars purchased by a business will be treated as new expenditure for the purposes of capital allowances.

Capital allowances: old system versus new system

Old

Cars up to £12k capital cost written down at 25% pa in a general pool.

New

Cars 111g/km to 160g/km written down at 20% pa in general pool. No balancing allowance. Cars emitting up to 110g/km can have their cost fully written off against taxable profits in the first year.

Old

Cars over £12k capital cost written down at 20% pa to a maximum £3000 pa. Individual balancing allowance or charge on disposal.

New

Cars emitting over 160g/km written down at 10% in a new special pool on a reducing balance basis. No balancing allowance.

Source: BVRLA

What else should I know about?

If you weren't clear by now, then let's make it plain: the lower the CO₂ of your business car, the less in tax it will cost you. So if you are thinking about a new business car, whatever the method of finance, consider the CO₂ emissions. ▶

◀ Vehicle Excise Duty (VED) – road tax

The major overhaul of VED that was due from April has been put on hold. Nevertheless, the current seven band system has been expanded to 13 bands. Road tax price rises are capped at £5.

Further VED rises from 1 April 2010 will be capped at £30, but new cars will have a new 'showroom tax'. See the table below for further information.

VEHICLE EXCISE DUTY FOR CARS

registered on or after 1 March 2001: 2009-10 and 2010-11 standard rates and 2010-11 first-year rate						
VED band	CO ₂ emissions g/km	2008-9 standard rate*	CO ₂ emissions g/km	2009-10 standard rate***	first year rate	2010-11 standard rate***
A	up to 100	£0	up to 100	£0	£0	£0
B	101-120	£35	101-110	£35	£0	£20
C	121-150	£120	111-120	£35	£0	£30
D	151-165	£145	121-130	£120	£0	£90
E	166-185	£170	131-140	£120	£110	£110
F	**over 185	£210	141-150	£125	£125	£125
G	over 225	£400	151-165	£150	£155	£155
H			166-175	£175	£250	£180
I			176-185	£175	£300	£200
J			186-200	£215	£425	£235
K****			201-225	£215	£550	£245
L			226-255	£405	£750	£425
M			Over 255	£405	£950	£435
*Alternative fuel discount 2008-09: B-E £20, F-G £15		**Includes cars emitting over 225g/km registered between 1 March 2001 and 22 March 2006		***Alternative fuel discount: 2009-10, B-I £20, J-M £15; 2010-11 onwards, £10 all cars		****Includes cars emitting over 225g/km registered between 1 March 2001 and 22 March 2006

Fuel duty rise

The rate of fuel duty went up 2p per litre on 1 December 2008. But that's not the end of it. A further increase of 1.84p per litre came in on 1 April 2009. And there's another 2p rise due 1 September 2009, before a 1p rise in April 2010.

What should you do to minimise the cost? Go for a business car with lower CO₂ emissions. Because the lower the CO₂ emissions, the more fuel efficient the car will be. And you'll pay less tax to the government.

Need more information?

Then go to the Total Card Knowledge Bank on the *Business Car Manager* website. Here you will find plenty of detailed downloads – all free of charge – to help you make a more informed business car choice. To access the Business Car Manager Knowledge Bank click on this link: [Total Card Knowledge Bank](#)

Health warning

Before you make any changes to your business car policy, consult your accountant, adviser, car leasing broker, or contract hire company first. Each individual circumstance is different so you should make sure you receive the correct advice for your company or business. ■

The bit in small writing

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