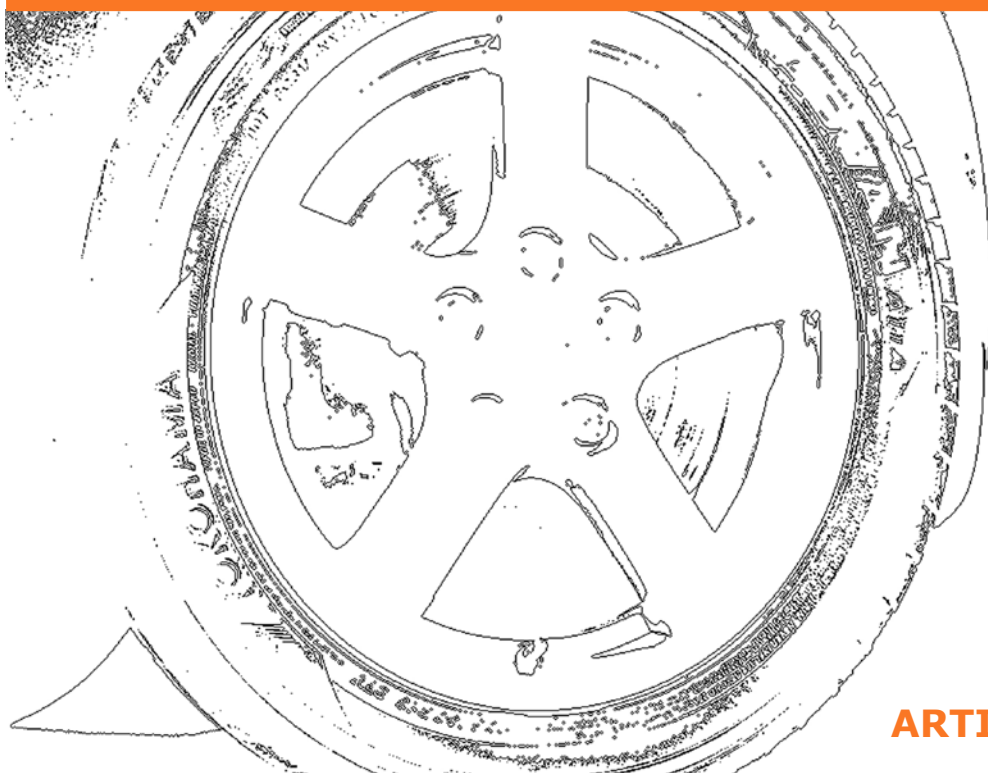


Knowledge

BANK



ARTICLE 26

Company double cab pick-up tax

Company double cab pick-up tax

Most businesses are unable to recover the input VAT they incur when buying a vehicle suitable for private motoring.

Legislation in 1992 defined the dividing line between cars and commercial vehicles for VAT purposes but many recently introduced car-derived vans have blurred the distinction between cars and vans, so HM Customs and Excise has issued new guidance in this area.

Most car-derived vans are clearly vans for VAT purposes, in that they have metal side panels behind the front seats, a load area that is unsuitable for carrying passengers and no rear seats. However, some vehicles – ‘car-derived vans’ - look like a car but are converted into vans; their rear seats are removed, a load area is fitted out and the rear windows are blocked out.

Customs will view such a vehicle as a van if, after conversion, it meets their technical specification of a van, can function as a commercial vehicle (though just removing the rear seat would not be adequate) and the load space is unsuitable for carrying passengers. If you are uncertain whether you can recover VAT on a car-derived van, you should ask the supplier to confirm that the vehicle meets Customs’ technical criteria. If you bought a car-derived van prior to 1 October 2003, it is unlikely that it will satisfy all of the technical criteria set out in Customs’ guidance, but if the vehicle looks like a car-derived van as set out above Customs will allow that vehicle to be treated as a van for VAT purposes.

The guidance also deals with ‘combination vans’ and sets out how these should be treated for VAT purposes.

These vehicles look like vans but have (or can have) rear passenger seats fitted. They should be treated as cars unless they have a payload of more than one tonne and the load area after the fitting of rear seats is still large enough for the predominant use of the vehicle to be the carriage of goods.

The relatively recent arrival in the UK of light commercial vehicles with double-cabs (four-door pick-up trucks) raised some doubt as to whether these are to be treated as cars or vans for benefit-in-kind taxation purposes. This was made more confusing by the fact that

Company double cab pick-up tax

HM Customs and Excise and HM Revenue and Customs treated these differently, potentially making a double-cab a car for income tax purposes and a van for VAT purposes.

HMRC acknowledge that these vehicles present them with a challenge when establishing the predominant purpose of construction because on the surface many double-cabs appear to be equally suited to convey passengers or goods. Hence they cannot come up with a single categorisation for all double cab pick-ups or give a blanket ruling on any particular makes, as the standard vehicle may have been adapted in the factory, by the dealer, or after purchase. So each case depends on the facts and the exact specification of the vehicle.

When deciding whether double cab pick-ups count as cars or vans, HMRC will interpret the legislation that defines car and van for tax purposes in line with the definitions used for VAT purposes.

Generally, if a double cab pick-up has a payload of 1 tonne (1,000kg) or more it is accepted as a van for benefits purposes. Payload means gross vehicle weight (or design weight) less unoccupied kerb weight. (Care is needed when looking at manufacturers' brochures as they sometimes define payload differently.)

Under a separate agreement between Customs and the Society of Motor Manufacturers and Traders (SMMT), a hard top consisting of metal, fibre glass or similar material, with or without windows, is accorded a generic weight of 45kg. Therefore the addition of a hard top to a double cab pick-up with an ex-works payload of 1,010 kg will convert the vehicle into a car (net payload reduced to 965 kg). Under this agreement, the weight of all other optional accessories is disregarded. HMRC has also adopted this treatment.

Potential purchasers can obtain advice about the payload of a particular model from the manufacturer or dealer. If you require more information see www.hmrc.gov.uk/manuals/eimanual/EIM23045.htm.

Tax on private use of vans

Benefit-in-kind tax is payable by a director, or an employee earning more than £8,500 per year, who is provided with a company van that is available for their (or a member of their family's or household's) private use.

Company double cab pick-up tax

If you provide a company van to an employee it is always treated as being available for private use for tax purposes, unless no private mileage is allowed and none is driven (both tests have to be met).

For tax purposes a van is a mechanically propelled vehicle having at least four wheels, built primarily to carry goods and other loads, and that has a gross vehicle weight of up to 3.5 tonnes. Gross vehicle weight is the maximum weight of the vehicle when travelling in normal use on the road.

A van driver who enjoys unrestricted private use of a company van is taxed on a benefit of £3,000 for the use of the van. A van driver who is provided with free fuel for private use will be taxed on a further benefit of £500.

If an employee makes a personal contribution to the business for the private use of the van, the amount he or she pays will be deducted from this charge. The payment must have been made because the employee is enjoying private use from the van and not because he decided to upgrade the van above the their normal entitlement.

In addition, if the car is only available for part of the year, the charge will be pro-rated.

Unlike the situation with company cars, no tax relief is available if the employee makes a capital contribution.

If a van is a true pool van, no tax will arise on private use. The rules for pool vans are the same as for pool cars.

If a company car driver takes his or her vehicle home, that is deemed to be private mileage for tax purposes. Most company van drivers take their vans home overnight because they are required to do so for the efficient operation of the business. It would be impractical to require them to drive their own cars to work so that they could pick up their vans to do their day's work. As this group of drivers take their vans home and do no other private mileage they are not taxed on this benefit.