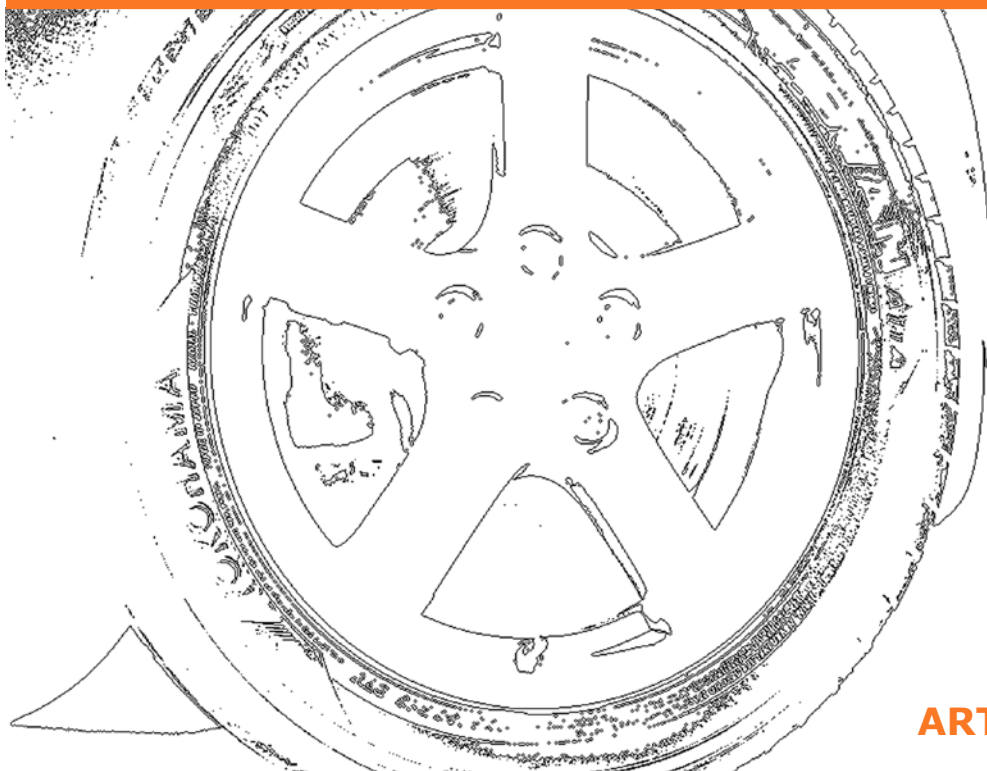


# Knowledge

# BANK



## ARTICLE 1

Paying National Insurance and company car tax

# Paying National Insurance and company car tax

## Class 1A National Insurance contributions

An employee who receives a company car is taxed on the 'cash equivalent value' of the car. The employer must pay Class 1A National Insurance contributions on these benefits, taking into account the car's CO2 emissions, the fact that it may not be available for the whole year and the other adjustments.

Class 1A contributions are also payable if the employee receives free fuel and is taxed on the fuel scale charges.

## Carbon dioxide based company car tax

### The cash equivalent

Benefit-in-kind tax is payable by directors or employees earning over £8,500 (including the value of any benefits-in-kind) who drive company cars that are available for their private use.

For the tax to arise the car has to be made available 'by reason of their employment' so it does not matter if the car is owned, leased or supplied by someone else.

The tax also applies if the car is made available to a member of the employee's family or household, including their spouse, parents, children (and their children's spouses) and guests

No car benefit charge arises if the employee is specifically prohibited from using (and does not use) their car for private purposes, or the car is a pool car or is an emergency services vehicle.

No charge arises either if the car is being driven by a disabled employee and these conditions apply: the list price of the vehicle (including VAT, delivery costs and all extras fitted before the vehicle is delivered) and the CO2 emission level of the vehicle.

To determine the relevant percentage of list price the exact CO2 figure of the vehicle is rounded down to the nearest five g/km.

Broadly, the steps to be followed are:

1. Find the price of the car (normally the list price)
2. Add the price of any accessories
3. Make any required deductions for capital contributions by the employee (max £5000)
4. Take the lower of the amount carried forward from Step 3 and £80,000

### Paying National Insurance and company car tax

5. Find the appropriate percentage for the car. This changes annually; see HMRC website.
6. Multiply the figure at Step 4 by the appropriate percentage at Step 5
7. Make any required deduction for periods when the car was unavailable
8. Make any required deduction for payments by the employee for private use of the car

There are special rules for cars that run on road fuel gas, classic cars (those 15 years of age or more) and disabled drivers.

The benefit may be reduced where the car is shared.

A 3% supplement is added to the percentage of list price if the vehicle is diesel powered. This reflects government concerns about the fact that diesel fuel contains 'particulates', small solid particles deposited locally when diesel is burned. While these do not affect the ozone layer and are not greenhouse gases, they may be carcinogenic and they affect local air quality.

If the car does not have an internal combustion engine with reciprocating pistons, the appropriate percentage is:

- 15% if it is propelled solely by electricity (for example, by a battery)
- 35% in any other case (for example, a car with a rotary Wankel engine).

If the employee makes a contribution of up to £5,000 towards the purchase price of the car (a 'capital contribution') this can be deducted from the list price before starting to calculate the company car tax liability.

However, the contribution from the employee to the employer must meet certain tests for this deduction to be allowed. If the payment is simply in the nature of a loan and is returned in full to the employee on sale of the car, it cannot be deducted from list price for company car tax purposes.

If the employee forfeits the £5,000 after it has been paid, or only gets back a proportion of it on sale of the vehicle (no more than the proportion that the sale proceeds represents compared with list price), the capital contribution can be deducted from list price.