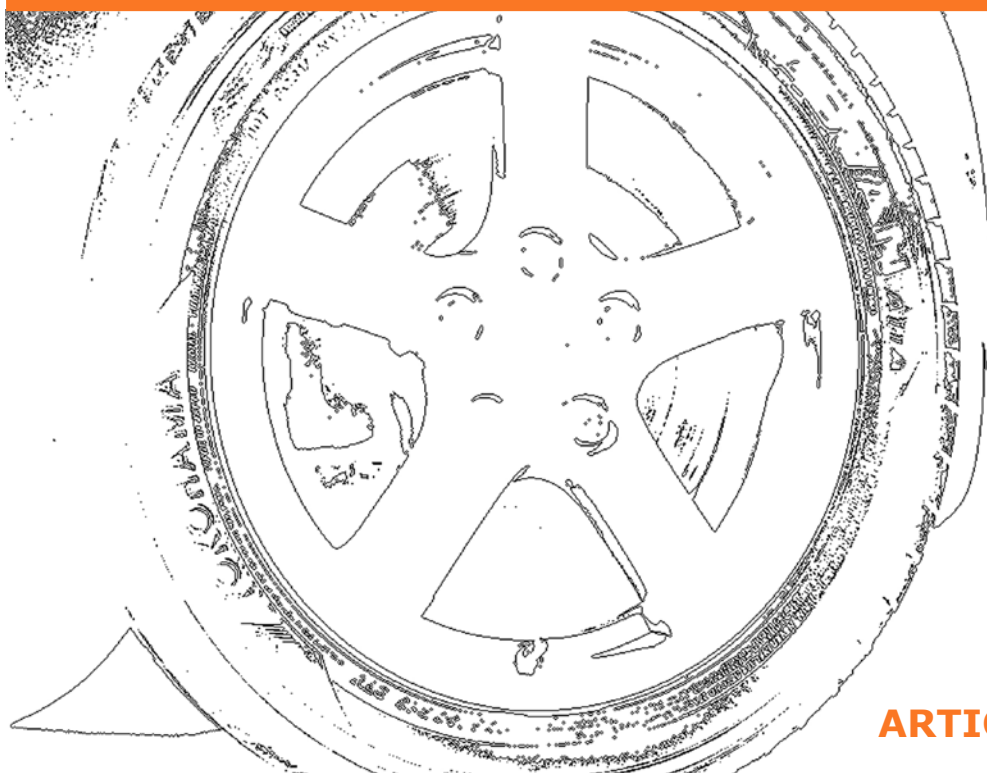


**business car
manager**

The business motoring magazine

Knowledge

BANK



ARTICLE 41

Tax on free fuel

Tax on free fuel

If you provide an employee (or a member of their family or household) with fuel for driving private mileage in a company car, they will have to pay tax on the benefit. This applies regardless of whether the fuel is paid for by credit card, voucher, or cash.

For this purpose private mileage includes commuting to and from work. The charge is payable whether you own the car or lease it. It is based on the car's CO2 emissions and a flat rate set by the government for the tax year. For 2008-09 this is £16,900 and the government plans to increase this annually by at least the rate of inflation. The charge is payable in addition to any benefit-in-kind tax on the car itself. If the employee is required to make good the full cost of the free fuel used for private mileage, this tax is not payable.

The steps involved in calculating the fuel charge are:

1. Determine the CO2 level of the car
2. Look up the taxable percentage based on the CO2
(see **Tax: Company car taxation table** in Business Car Manager)
3. Multiply the taxable percentage by £16,900

This gives you the fuel charge that will be added to the employee's salary and be taxed at his or her marginal tax rate.

Example:

Hilary is a higher rate taxpayer

Her diesel-engined company car has a CO2 output of 175g/km

Therefore according to the chart her taxable percentage is 26%

$26\% \times £16,900 = £4,394$

So as a taxpayer with a 40% marginal rate of tax she will pay $40\% \times £4,394 = £1,758$ benefit in kind tax.

If she fully reimburses the employer, no scale charge arises.

Many firms have stopped providing employees with free private fuel because the tax payable by the individual exceeds the benefit received.

Calculating whether you benefit from taking free fuel

Work out how much you would spend if you bought it yourself by multiplying the private mileage you drive by the average cost of fuel

Tax on free fuel

per gallon and the number of miles your car travels per gallon. Calculate the fuel charge for the car, using the figures in the table above.

Multiply the fuel charge by your marginal rate of tax.

If the cost of buying the fuel yourself exceeds the tax payable on the fuel charge, you are benefiting from having it paid for by the company. If the tax payable on the fuel charge is more than you would spend buying the fuel yourself, you would be better off paying for it yourself. Even if you are benefiting from receiving free private fuel, it is worthwhile looking to see how much it is costing the company to provide the benefit. Both parties may be better off if the company gives you an increase in salary and stops providing you with free private fuel.