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## ELECTRIC CARS

There are number of tax incentives in connection with the purchase and running of electric cars.

Compared to petrol or diesel, electricity is cheap. On a cost per mile basis this means the costs for a pure electric car could cost a third (or less) of a traditional petrol or diesel car.

Plug-in hybrids efficiently combine an electric motor with a petrol or diesel engine, meaning they too can be considerably cheaper to run. In addition there are a number of tax benefits in relation to electric cars.

### Fuel Duty

For petrol, diesel, biodiesel (for road use) and bioethanol, fuel duty is 57.95p a litre. There is, however, no fuel duty on electricity or on hydrogen used in a fuel cell (but not in an internal combustion engine).

### Road Tax

Road Tax, or Vehicle Excise Duty to give it its official name, can be a significant cost of acquiring and running a car.

For cars registered before 1 April 2007 the amount of Road Tax depends on its CO2 emissions. For cars that emit less than 100g CO2 the amount is nil, so there should be no charge for electric cars. For cars registered on or after 1 April 2017 there are two rates of Road Tax:-

- The First Year Charge (FYC) that is usually paid on the purchase of the car is dependent on the level of CO2 emissions and ranges from £15 to £2,235;
- In subsequent years there is an annual flat rate charge of £155, or £490 for the first five years for cars costing over £40,000.

Cars that are not solely powered by petrol/diesel are classified as alternative fuel vehicles and receive a £10 discount to both the FYC and the annual charge.

The good news for electric cars is that zero emission cars are exempt from both the FYC and the annual charge.

### VAT

There is very little difference between the VAT treatment of electric cars and more conventional vehicles. There is a 20% VAT charge on petrol, diesel, and hydrogen used as fuel. Electricity supplied for domestic, non-business and charity use carries a VAT rate of 5%. Electricity provided to businesses carries a 20% rate.

## Company cars

The provision of Company cars to employees is a taxable benefit giving rise to potential income tax and national insurance charges. The quantum of the benefit is an appropriate percentage of the car's total list price. For an electric car the list price should include the cost of the battery even if leased separately. The level of the percentage applied depends on the car's CO2 emissions. The quantum of the benefit for an electric car will therefore be substantially below that of a petrol, diesel car of similar price. as illustrated in the appendix below. For 2021/22, a pure electric vehicle will only be subject to a 1% benefit in kind charge. For 2020/21 there was no charge at all.

For cars with a CO2 emission of 50g/km or less it is possible to provide the car in a salary sacrifice arrangement without being taxed on the salary foregone if this is higher than the taxable benefit. There is no fuel benefit on electric cars.

For a company car there is no taxable benefit on the installation of a charging point at the employee's home or on the provision of a charging point at the employee's workplace. Otherwise where the employer reimburses the cost of charging the car a taxable benefit does arise unless it can clearly be demonstrated that this relates only to business mileage. Please note that normal commuting to and from the workplace is not business mileage.

From 1 September 2018 an advisory 'fuel' rate of 4p a mile was introduced for electric cars so employers can reimburse for business mileage.

## Private cars

From 6 April 2018 an employer can provide charging facilities at or near the workplace and no taxable benefit will arise. The facilities must, however, be made available to all employees. Otherwise the reimbursement of electricity for charging the cars will be a taxable benefit.

For all personally owned cars, (petrol, diesel or electric) it is possible for an employer to reimburse the employee for business mileage up to the authorised mileage allowance or 45p a mile for the first 10,000 miles and 25p thereafter.

## Capital allowances

Until April 2025 a 100% First Year Allowance can be claimed on a purchase of a new car (not second-hand) with zero CO<sub>2</sub> emission. Thus an immediate tax deduction can be obtained for the full cost of an electric car.

A 100% First Year allowance is also available for the installation of an electric vehicle charging infrastructure. This relief however, is only available until 31 March 2023 (for companies) or 5 April 2023 (for sole traders and partnership subject to income tax).

## Appendix

### Tesla Model 3 Long Range Auto

Fuel type:	Electric	List price:	£49,990
CO <sub>2</sub> :	0	Electric only range:	254

	2020/21	2021/22	2022/23
Benefit in Kind Rate:	0%	1%	2%
Benefit in Kind:	-	500	1,000
Increase in personal tax (40%):	£-	£200	£400

### BMW 530e xDrive SE Auto

Fuel type:	Petrol/Electric Hybrid	List price:	£50,035
CO <sub>2</sub> :	37	Electric only range:	31 miles

	2020/21	2021/22	2022/23
Benefit in Kind Rate:	10%	11%	12%
Benefit in Kind:	5,004	5,504	6,004
Increase in personal tax (40%):	£2,002	£2,202	£2,402

### Audi A5 Sportback 40 TDI quattro

Fuel Type:	Diesel	List Price:	£49,035
CO <sub>2</sub> :	164	Electric only range:	N/A

	2020/21	2021/22	2022/23
Benefit in Kind Rate:	35%	36%	37%
BIK:	17,162	17,653	18,143
Increase in personal tax (40%):	£6,865	£7,062	£7,257

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