
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 several tax benefits in relation to electric cars.

Fuel Duty

For petrol, diesel, biodiesel (for road use) and bioethanol, fuel duty is 52.95p 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 the 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 £10 to £2,365;
- In subsequent years there is an annual flat rate charge of £165, or £520 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 or diesel car of similar price, as illustrated in the appendix below. For 2022/23, a pure electric vehicle will only be subject to a 2% benefit in kind charge.

For cars with a CO₂ emission of 75g/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 December 2021 an advisory 'fuel' rate of 5p 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 CO₂ 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

For 2022/23

	CO2 emission g/km	List Price £	Benefit in kind rate	Taxable benefit £	Income tax @ 40% £
Tesla Model 3 Range Auto	0	49,900	2%	998	399
BMW 530e xDrive SE auto	37	50,035	12%	6,004	2,402
Audi A5 Sportback 40 TDI quattro	164	49,035	37%	18,143	7,257

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