

Car fuel benefit - Are you being overtaxed?

If you are provided with a company car by your employer you may also have your private fuel provided with it. If so, you will pay tax on a fuel benefit in addition to the company car benefit. The taxation of the fuel benefit is calculated in a similar way to that for the company car scale charge, namely based on the vehicle's CO2 emissions. The mechanism for achieving this is to use a "base" figure of **£18,000** and multiply this by the car's emissions tariff.

Example:
 Ford Mondeo Estate 2.0 Zetec 5dr; CO2 emissions 187; tariff 2010/11 = 26%
 Fuel benefit 2010/11 £18,000 x 26% = £4,680

Even with historically high pump prices, in many cases it will no longer be worthwhile receiving private fuel from your employer. Employees doing little private mileage may be paying more in income tax on the fuel scale charge than they would by simply paying for the private fuel themselves! In such cases, the answer is to simply stop receiving employer-provided private fuel and start to pay for it yourself. However, on a higher private mileage, a *fuel cash alternative* may be needed. This would effectively compensate you for the fact that you will have now to pay for your own private fuel. The idea here is that both the tax savings made from removing the fuel scale charge *and* the additional cash (net of tax and NIC) outweigh the actual cost of the private fuel. This can often result in significant savings.

How is the cash alternative calculated?

The starting point is to see what the employer *could* pay and be no worse off. This is illustrated in the example across. Based on the assumptions used in the example, the driver could be paid a cash alternative of £2,070 a year without it costing his employer a penny more. On this footing, he would be a massive £1,745 a year, or £145 per month, better off. Alternatively, the employer may choose to offer less than £2,070 and effectively ensure that he receives some of these savings, thus achieving a "win-win" situation.

| Petrol car with 30% CO ² emissions, estimated 30 mpg. Fuel 120p per litre; private mileage 9,000pa; higher rate taxpayer | Employer £ | Employee £ |
|---|---------------|----------------|
| Cost of Fuel (300 gallons) | 1,636 | (1,636) |
| VAT reclaimable less scale charge saved | 9 | |
| Class 1A saving (£5,070 @ 12.8%) | 691 | |
| Benefits tax saved (£5,070 @ 40%) | | 2,160 |
| Additional salary | (2,070) | 2,070 |
| Employers NIC on salary (12.8%) | (266) | |
| PAYE & NIC on salary (40% + 1%) | | (849) |
| Total | 0 | + 1,745 |

Private mileage "breakeven" points

The tables below, one for a basic rate taxpayer and one for a higher rate taxpayer, show the number of private miles you need to drive to get the value of the fuel that you are paying tax on in the *current* tax year. They make sobering reading. The "Break even (no cash)" column shows the point at which you would be better off just turning down the offer of "free" fuel. So, for example, a 40% taxpayer driving a car that does 40 mpg with a medium CO2 rating and doing less than 13,726 private miles would be better off just paying for all his private mileage out of his own pocket. The tax he saves by not having the scale charge in his tax code is *by itself* enough to pay for the fuel. For the basic rate taxpayer driver the same example shows that he would be better off if he does less than 6,863 private miles.

But look carefully at the right hand column in each case. This shows the position should your employer agree to pay you a cash alternative to the fuel he is currently paying for. Even for basic rate taxpayers anyone driving under 16,779 miles (for the 40mpg car) would be better off taking the cash instead of the free fuel. A 40% tax-paying driver of the same vehicle would have to drive 22,205 *private* miles to see any benefit from having free fuel. These figures assume a fuel price of 120p per litre for petrol and 123p for diesel, which is the fuel in the 50mpg example shown in the table below.

BASIC RATE TAXPAYER

| Car's mpg | Car's CO2 | Fuel benefit | Break Even (no cash) | Break Even (with cash) |
|-----------|-----------|--------------|----------------------|------------------------|
| 30 | 35% | 6,300 | 6,929 | 16,400 |
| 40 | 26% | 4,680 | 6,863 | 16,779 |
| 50 | 18% | 3,240 | 5,918 | 15,141 |

HIGHER RATE TAXPAYER

| Car's mpg | Car's CO2 | Fuel benefit | Break Even (no cash) | Break Even (with cash) |
|-----------|-----------|--------------|----------------------|------------------------|
| 30 | 35% | 6,300 | 13,858 | 22,368 |
| 40 | 26% | 4,680 | 13,726 | 22,205 |
| 50 | 18% | 3,240 | 11,878 | 19,581 |

Is there a downside?

There are a couple of points to bear in mind. Firstly, if we were looking at an employee earning below the NIC upper ceiling – currently £43,875 pa – then he would have to pay 11% Employees NI on the cash alternative, which would eat into the saving. But the tax rate would then be 20%, not 40%.

Secondly, the employee would need to keep a *business* mileage log in order to claim back the cost of the business fuel from his employer. But this could be a relatively small price to pay to achieve the savings which are possible.

We have developed a simple spreadsheet that will work out a fuel cash alternative for your car. We charge £100 plus VAT per calculation and will need the following information from you to perform the calculation:

- Your level of salary and benefits;
- Total annual *private* mileage;
- Your car's fuel type;
- Your car's average mpg;
- Your car's CO2 emissions rating (g/km)

For further information please contact Ray Cadman (rcadman@garbutt-elliott.co.uk) or Richard Whitelock (rwhitelock@garbutt-elliott.co.uk) on 01904 464100.