

Tax and Company Cars

How does CO2 affect how much tax you pay?

Noel Duffy looks at the issues

Will CO2 do for the UK car market what the price of gasoline in the early 1970's did for the US car market? Those driving cars with high CO2 ratings could find themselves looking enviously at colleagues paying 40 per cent less tax on a low CO2 vehicle with the same showroom price.

The average company car is held for between three and four years, anyone switching to a new car in the next few months is almost certain to face at least one tax year under the new rules, while many will still be in the same car in 2004.

The rules are changing as part of the Government's policy aimed at cutting pollution and global warming. It wants to use tax carrots to encourage motorists to switch to smaller cars, which pollute less.

The tax has Gordon Brown written all over it. It establishes his green credentials by promoting low CO2 emissions. It is a classic stealth tax as it doesn't reflect in higher rates but higher rate taxpayers will definitely pay more tax unless they reduce their car size. Big mileage drivers will also be hit.

At present, a company car is taxed as annual income worth 35% of its purchase price. This is reduced to 25% for those who drive 2,500 or more business miles a year and to only 15% for 18,000 or more business miles in a year. This system means that drivers of high-priced executive cars can cut more than £1,000 a year off their tax bills by pushing mileage beyond 18,000.

A new approach will scrap all this. From April 2002, the tax charge has been based on a sliding scale of 15% to 35% of the car's purchase price.

Where a car sits on this scale depends on how much CO2 it produces. From April 2003 the cleanest, producing 155 grams of CO2 per kilometre or less, will be taxed at 15%. Then one per cent will be added for each 5g/km extra CO2. Cars producing 265g/km or more CO2 will be taxed at the top rate 35%. Mileage is irrelevant. The tax is the same whether a car is driven into the ground or sits in a garage all year.

And the regime becomes tougher. From April 2004, the lower threshold becomes 145 g/km, so a car producing 165g/km and being taxed at 15% in 2002 will be taxed at 17% in 2004. Drivers must look four years into the future to find out which cars will have the lowest tax rate.

The situation is slightly more complicated for those driving diesel cars. Although these generally produce less CO2, they emit more dirty exhaust particulates.

So diesels will have an extra three per cent annual levy added to their ranking in the CO2 tables, providing this does not take the car over the 35% maximum. Even with the added levy, many diesel cars will still be taxed less than equivalent petrol versions.

The table below sets out the scale charge calculation for the coming two years.

Scale Charge Calculator		
G/km of CO2 this invisible text % of List Price		
2003/04	2004/05	

155	145	15%*
160	150	16%*
165	155	17%*
170	160	18%*
175	165	19%*
180	170	20%*
185	175	21%*
190	180	22%*
195	185	23%*
200	190	24%*
205	195	25%*
210	200	26%*
215	205	27%*
220	210	28%*
225	215	29%*
230	220	30%*
235	225	31%*
240	230	32%*
245	235	33%**
250	240	34%***
255	245	35%****

Diesel Supplements

- * Add 3% if car runs solely on diesel
- ** Add 2% if car runs solely on diesel
- *** Add 1% if car runs solely on diesel
- **** Maximum charge so no diesel supplement.

Example

A couple of examples have been set out below. Low mileage drivers are likely to be the winners in the changeover. However there is no rule of thumb - each driver has to work through the calculations.

Example I .

Mr. Bloggs has a company car. He drives 12,000 business miles in each tax year. His car emits 202 grams of CO2 per kilometre driven, and has a list price of £23,450. He is a 40% taxpayer.

	2003/2004
	£
List Price	23,450
Percentage charge for 202 g/km	24%
Benefit in kind	5,628

Tax payable at 40%	2,251
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Example II .

Mr. Bloggs has a diesel engine company car. He drives 20,000 business miles in each tax year. His car emits 206 grams of CO2 per kilometre driven, and has a list price of £26,400. He is a 40% tax payer.

	2003/2004
	£
List Price	23,450
Percentage charge for 206 g/km plus flate rate increase of 3% (25% + 3 %)	28%
Benefit in kind	6,566
Tax payable at 40%	2,626

Exceptions

The new CO2 emissions system will not apply to vehicles with no CO2 emissions rating (for example: they have been imported from outside the EC) or older vehicles for which the CO2 emissions rating is not known. The taxable benefit in such cases will be based on engine size as follows:

Engine Size (cc)	No emissions figure	Older vehicle
0 - 1,400	15%	15%
1,401 - 2,000	25%	22%
2,001 +	35%	32%

Car Fuel Scale

From 6th April 2003 the additional taxable benefit of free fuel provided for a company car is calculated using the same CO2 figures as are used for calculating the scale charge. The CO2 percentage figure is applied to a fixed amount of £14,400.

Vehicle Excise Duty (road fund licence)

Further reforms to vehicle Excise Duty (VED) have been announced with a reduction in VED rate for smaller and cleaner vehicles.

F or all existing and light goods vehicles registered before 1 March 2001:

- The VED rate for vehicles over 1549cc will be £165 .
- The VED rate for vehicles under 1549cc will be £110 .

F or all new cars registered for the first time from 1 March 200 1 there is a banding system based on CO2 emissions

		Diesel Car	Petrol Car	Alternative Fuel Car
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Bands	CO2 emission figure (G/Km)	12 Month Rate £	6 Month Rate £	12 Month Rate £	6 Month Rate £	12 Month Rate £	6 Month Rate £
AAA	Up to 100	75.00	41.25	65.00	35.75	55.00	30.25
AA	101-120	85.00	46.75	75.00	41.25	65.00	35.75
A	121-150	115.00	63.25	105.00	57.75	95.00	52.25
B	151-165	135.00	74.25	125.00	68.75	115.00	63.25
C	166-185	155.00	85.25	145.00	79.75	135.00	74.25
D	Over 185	165.00	90.75	160.00	88.00	155.00	85.25

No doubt the changes outlined above will prompt many drivers to reassess whether it is still worthwhile to drive a company car.

Winners will be those who get a car as a genuine perk, but do not use it for business travel. If they face a big rise in the tax bill, they may choose a cash alternative instead and then claim for business miles from the employer.

Conversely, there might be some potential winners, especially those driving low mileage, who find it worthwhile to opt for the car again because their tax bill has fallen dramatically.

There is no rule of thumb; each driver has to work through the calculations

The above advice is given in good faith. Individual circumstances differ, no action should be taken without regard to these personal circumstances. Accordingly, please consult your professional adviser. If you wish to talk to one of our partners or tax consultants, please do so. The first hour is free and without obligation.