



# **YOUR GUIDE TO ELECTRIC CAR FAQs**

# FREQUENTLY ASKED QUESTIONS ABOUT ELECTRIC VEHICLES

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Company cars have gone through a lot over recent years. From being a very tax efficient way of running your vehicle to being one of the most tax inefficient benefits around, company cars are going through a bit of a renaissance again thanks to the introduction of electric vehicles to the mass market.

There are currently some very lucrative tax incentives available to companies and individuals who are able and willing to change up their traditional petrol or diesel car for an all-electric alternative.



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# HOW WILL MY COMPANY BENEFIT FROM AN ELECTRIC VEHICLE?

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In short, your company may be eligible to claim up to a 100% tax deduction for the cost of the car in the year it purchases the vehicle.

How much you will be able to deduct all depends on whether the vehicle is full electric or a hybrid model, and also if the car is brand new or second hand. The table below shows all the different possibilities and the amount you would be eligible to deduct from your taxes under each scenario.

It is therefore clear that a brand new fully electric vehicle offers the most up front tax relief for a limited company.

Description of Car	Tax Relief Available
New and unused Fully electric or emissions are 0g/km	100% year one deduction
New and unused Emissions are 50g/km or less	18% each year until no remaining balance
Second hand Fully electric or emissions are 50g/km or less	18% each year until no remaining balance
New or second hand Emissions are above 50g/km	6% each year until no remaining balance

# WHAT IS A BENEFIT IN KIND?

## HOW DOES IT AFFECT MY PERSONAL TAX?

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You may have heard of what is known as Benefits in Kind before. When a company decides to provide an employee or director with a benefit, such as a company car, HMRC consider this to be effectively in lieu of the company providing a pay rise to the employee. As such, a taxable amount known as a 'Benefit in Kind' is calculated and this gets included within the employee's taxable income for the year.

Benefit in Kind rates for fully electric vehicles are very favourable at the moment however, 'being just 2% of the list price of the car for the 2024/25 tax year (after this it will increase by 1% each year until the 2027/28 tax year). For a vehicle worth £50,000 – this would equate to taxable benefit of just £1,000 for the year. If the taxpayer pays the basic rate of income tax, this would mean that they pay just £200 in tax for having personal use of the car for a full year. Compare this with the tax your company will save, and it's clear to see how beneficial electric cars can be.

## WILL THIS IMPACT MY DIVIDENDS?

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There are also auxiliary benefits such as the possibility of your personal cash requirements from the company reducing if your company is now paying your car lease, which could mean you can reduce your dividend amount and pay less personal tax.

In order to fund a personal car lease of say, £5,000 per year, you would actually need to draw around £7,500 from your company to pay this and the equivalent higher rate tax on the dividends.

If you switch this to the company, you will therefore no longer need to draw these dividends each year, which will save £2,500 in tax every year. This is on top of any tax the company saves.

There are a number of different options available when purchasing an electric vehicle, and the below comparison table may help you compare the different options available and consider which will be most appropriate in your circumstances:



# HIRE PURCHASE VS. CAR LEASE VS. CASH PURCHASE

	Cash purchase	Hire purchase	Car lease/rental
Repayment structure	Cash paid upfront, no subsequent monthly repayments	Normally smaller deposit upfront, followed by monthly payments (which may include interest). May also include balloon payment after normal lease term expires	Monthly rental payments
Tax Relief	Up to 100% of the cost of the car in year one	Up to 100% of the cost of the car in year one	Relief only on the monthly rental payments
Company can pay running costs?	Yes	Yes	Yes
Tax to repay if car sold/handed back	Yes, amount depends on amount received	Yes, amount depends on amount received	No

# EXAMPLE

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Dr Bob is a practice owner operating via a limited company. As his current diesel car lease is about to come to an end, he is interested in taking out a company car lease on a brand new fully electric vehicle through his limited company.

The cost of the car Dr Bob is looking at is £75,000 – and he plans to lease this through the company on a PCP deal.

## COMPANY POSITION

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The company can claim a 100% deduction from their trading profits in the year the lease is signed and the car is acquired.

Corporation tax saved =  $£75,000 \times 25\% = £18,750$

The company will need to pay additional Class 1A National Insurance contributions on the value of the benefit in kind.

NIC =  $(£75,000 \times 2\%) \times 13.8\% = £207$

## PERSONAL POSITION

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As Dr Bob also uses the company car for personal reasons, there will be a benefit in kind included on Dr Bob's next personal tax return.

Dr Bob has structured his company drawings so as to remain a basic rate tax payer.

Benefit in Kind =  $£75,000 \times 2\% = £1,500$

Personal tax payable =  $£1,500 \times 20\% = £300$

# SUMMARY

Corporation tax saved	£18,750
NIC payable (net of corp tax relief)	(£155)
Personal tax payable	(£300)
<b>Net tax saving</b>	<b>£18,295</b>

## IS THERE ANY DIFFERENCE BETWEEN HP AND LEASING OVER TIME?

Although the upfront tax relief under a hire purchase agreement is much larger than a lease agreement, the total relief over the course of the contract is likely to be very similar.

Consider an example of a car worth £40,000:

	Hire purchase	Rental lease
Car cost	£40,000	£40,000
Lease term	6 years	6 years
Monthly repayments	£555	£555
Upfront tax relief (@ 25%)	£10,000	-
Annual tax relief on lease payments (@ 25%)	-	£1,665
Total lease relief	-	£9,990
<b>Total overall tax relief</b>	<b>£10,000</b>	<b>£9,900</b>

It is therefore mainly a timing issue of when this tax relief is received, rather than how much you will be able to receive.





# GET IN TOUCH

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