

Class 1A National Insurance contributions on car and fuel benefits

A guide for employers

Use from 6 April 2015 for 2015, 2016 and earlier years

Withdrawn - do not use

Help and guidance

You can get help and guidance from the following sources.

The internet

For help with your payroll, go to www.hmrc.gov.uk/payerti/index.htm

For wider interactive business help, go to www.gov.uk/starting-up-a-business

Webinars are a new way of learning about your payroll. Our presentations cover a wide range of topics. For more information, go to www.hmrc.gov.uk/webinars

Any page printed from the online version of this helpbook is uncontrolled and may not be the latest version. We recommend that you always check you are referring to the latest online version.

Online services

For information and help using our Online Services, go to www.hmrc.gov.uk/online

For more help, contact the Online Services Helpdesk by:

- phone on 0300 200 3600
- textphone on 0300 200 3603

Basic PAYE Tools

The Basic PAYE Tools is software that you download onto your computer. It will help you run your payroll throughout the year. It is designed for employers who have 9 or fewer employees, and you can use it to calculate payroll deductions and then report payroll information online in real time. Basic PAYE Tools will:

- record your employees' details
- work out and record your employees' pay, tax, National Insurance contributions (NICs) and any Student Loan deductions every payday
- allow you to correct an employee payment made earlier in the tax year
- allow you to make a mistimed payment (that is a payment that an employee was entitled to receive earlier or later than the date on which it will be paid)
- allow you to claim your NICs Employment Allowance
- generate the payroll data that you need to send to HM Revenue & Customs (HMRC) in real time, including starter and leaver information
- produce an Employer Payment Record that works out how much you need to pay HMRC
- contain calculators to help you to work out statutory payments such as Statutory Sick Pay and Statutory Maternity Pay

To find out more information about the Basic PAYE Tools, go to www.hmrc.gov.uk/payerti/getting-started/payroll-system.htm

Employer helplines

- Employer for less than 3 years, phone 0300 200 3211
 - Employer for 3 years or more, phone 0300 200 3200
- If you have a hearing or speech impairment and use a textphone, phone 0300 200 3212

Please tell us your employer PAYE and Accounts Office references when you contact us. You will find them on correspondence HMRC have sent to you.

Employer helpbooks and forms

Helpbooks and forms are available to download.

Go to www.hmrc.gov.uk/payerti/forms-updates/forms-publications.htm

Exceptionally, if you don't have access to the internet, some of our helpbooks and forms are available from the Employer Orderline on 0300 123 1074.

Yr Iaith Gymraeg

I lawrlwytho ffurflenni a llyfrynnau cymorth Cymraeg, ewch i www.hmrc.gov.uk/cymraeg/ffurflenniathafleenni_defnyddiol.htm a dilyn y cysylltiad i Becyn y Cyflogwr. Os, yn eithriadol, nad oes gennych gysylltiad i'r rhyngwyd, cysylltwch â'r Ganolfan Gyswllt Cymraeg ar 0300 200 1900.

Forms and guidance in Braille, large print and audio

For details of employer forms and guidance in Braille, large print or audio, phone the Employer Orderline on 0300 123 1074 and ask to speak to the Customer Service Team.

Education services from the Digital Delivery Team

Find out more about our **live and recorded webinars**, go to www.hmrc.gov.uk/webinars

To view our video clips, go to www.youtube.com/hmrcgovuk

Employer Bulletin online

Employer Bulletins contain information and news for employers. We publish these 6 times a year. Go to www.hmrc.gov.uk/payarti/forms-updates/employer-bulletin/index.htm

Employer email alerts

We strongly recommend that you register to receive employer emails to prompt and direct you to:

- each new edition or news about the Basic PAYE Tools
- the Employer Bulletin
- important new information

To register, go to www.hmrc.gov.uk/payarti/forms-updates/forms-publications/register.htm

HM Revenue & Customs

If you have a query about your PAYE scheme:

- phone the Employer Helpline on 0300 200 3200
- write to
HM Revenue & Customs
National Insurance Contributions & Employer Office
BP4102
Chillington House
Beacon Park View
NEWCASTLE UPON TYNE
NE3 1ZZ

Please tell us your employer PAYE and Accounts Office references when you contact us. You will find them on correspondence HMRC have sent you.

Your rights and obligations

'Your Charter' explains what you can expect from us and what we expect from you. For more information, go to www.gov.uk/government/publications/your-charter

Contents

Introduction	7
Do I need to read this booklet?	7
What else do I need to read?	7
How can this booklet help me?	7
Information about PAYE and Class 1 National Insurance contributions (NICs)	7
Statutory references	8
If you are unhappy with our service	8
Part 1 – Working out Class 1A NICs	8
Introduction	8
How are Class 1A NICs worked out?	8
How do I work out how much Class 1A NICs I have to pay?	8
When are Class 1A NICs due?	9
Am I liable to pay Class 1A NICs on the cars I provide?	10
What is a car?	10
What is a company car?	10
Providing company cars and fuel	11
Part 2 – Exceptions from Class 1A NICs	11
When are Class 1A NICs not payable?	11
Part 3 – Working out the car benefit	12
Introduction	12
How do I work out the car benefit?	12
Cars which run on 'road fuel gas'	12
Step 1 – The price of the car	13
What is the price?	13
What is the list price?	13
What is the notional price of a car?	13
Can I deduct a discount from the price of a car?	13
What happens if I provide second-hand cars?	13
Cars manufactured to run on 'road fuel gas'	13
Automatic car for a disabled employee	14
Step 2 – Accessories	14
What is a 'qualifying accessory'?	14
What is the meaning of 'accessory'?	14
What are the rules for accessories?	15
Initial extra accessories	15
Later accessories	15
Replacement accessories	16
Cost of converting a car to run on road fuel gas	16
Equipment for disabled people	16
Step 3 – Capital contributions	17
What is the effect of a capital contribution?	17
For what years is the amount allowed?	17
Steps 1 to 3 Changes for classic cars	17
What is a classic car?	17
What is the market value?	17
What about capital contributions towards classic cars?	18
What is the price cap?	18

Step 4 - The appropriate percentage	19
What is the approved CO ₂ emissions figure?	19
How do I find the approved CO ₂ emissions figure?	19
What if I find two contradictory CO ₂ emissions figures?	20
Cars with a CO ₂ emissions figure first registered on or after 1 January 1998 only	20
Cars first registered on or after 1 January 1998 without an approved CO ₂ emissions figure	22
Cars first registered on or after 1 January 1998 - adjustments to the appropriate percentage	22
Cars first registered on or after 1 January 1998 - reduction for disabled employees	23
The appropriate percentage for all cars first registered before 1 January 1998	23
Step 5 - Calculating the car benefit charge for a full year	23
How do I calculate this?	23
Step 6 - Reduction for periods when the car is unavailable	23
When is this reduction available?	23
What is the meaning of 'unavailable'?	24
Replacement cars	24
Step 7 - Adjustment for shared car	24
Step 8 - Reduction for payments for private use	25
When is this reduction available?	25
What is 'business travel'?	25
Part 4 - Working out the fuel benefit	26
Introduction	26
Methods of provision	27
Exceptions to this general rule	27
What if I provide fuel for business use only?	27
When is there a car fuel benefit charge?	27
Calculating the car fuel benefit charge for a whole car	27
Reducing the charge - car unavailable	28
Reduction because private fuel is withdrawn	28
Employee reimburses cost of fuel provided for private use	28
Providing fuel for use in an employee's private owned car	28
Part 5 - Special cases	29
Introduction	29
Employees going and coming from abroad	29
General	29
Pooled car	29
General	29
Conditions	30
Meaning of 'merely incidental to'	30
Meaning of 'not normally kept overnight'	30
Adequate parking facilities	30
Car fails any of the conditions for a pooled car	30
Shared cars	31
General	31
Working out Class 1A NICs for a shared car	31
Disabled drivers	32
General	32
Cars provided to disabled drivers	32
Private use of a car provided to a disabled driver	32
Converting a car for use by disabled drivers	32

Family or household member	33
Cars provided to a family or household member	33
Exception to the family member rule	33
Car provided by a third party	34
More than one car provided	34
Cash alternatives to company cars	35
Motoring expenses associated with company cars	35
Leased cars	35
Vans	35
Part 6 – Records and record keeping	35
Other car records	35
Incomplete or non-existent records	35

Withdrawn – do not use

Introduction

Real Time Information (RTI)

The following guidance applies to all employers. Guidance for reporting PAYE in real time is also available at www.hmrc.gov.uk/payerti/index.htm

1 Do I need to read this booklet?

You should read this booklet if you:

- are an employer who provides cars to your employees
- provide cars to employees of another employer

There are legal requirements that mean employers must comply with their obligations. At the time of writing, this guide sets out HMRC's view on how these legal requirements can be met. It will be updated annually and was last updated December 2014.

2 What else do I need to read?

Class 1A National Insurance contributions (NICs) are due on most taxable benefits, including car and fuel benefits. CWG5(2015) 'Class 1A NICs on benefits in kind' is the main guide about Class 1A NICs on benefits.

It tells you:

- what benefits are liable for Class 1A NICs
- when liability for Class 1A NICs arises, and
- how you report and pay Class 1A NICs

If you provide any type of benefit which you are required to report on forms P11D (or substitute) you should read CWG5(2015) 'Class 1A NICs on benefits in kind'. Go to www.hmrc.gov.uk/payerti/forms-updates/forms-publications.htm

3 How can this booklet help me?

This booklet replaces the April 2014 edition. Because there are special rules about how tax and Class 1A NICs are worked out on car and fuel benefits, this booklet is available in addition to the CWG5(2015) 'Class 1A NICs on benefits in kind'.

This booklet tells you how the taxable benefit of providing a car is worked out. It shows you how the taxable benefit can be adjusted, for example because the car is unavailable for part of the year, and how it is used to calculate Class 1A NICs. It also explains what NICs are due if you provide your employees with fuel for use in the cars you provide.

Throughout this booklet explanations are given of some of the main terms you will come across in working out car and fuel benefits.

4 Information about PAYE and Class 1 NICs

We provide a wide range of leaflets and booklets to explain different aspects of tax and NICs in plain English. For general information on PAYE and Class 1 NICs, see the Employer Helpbooks. For special or unusual cases, see CWG2(2015) 'Employer Further Guide to PAYE and NICs'.

This guidance only provides a brief overview of car and fuel benefits; you should also read the 480(2015) Expenses and benefits - A tax guide Chapters 11,12,13,14,15 and Appendices.

5 Statutory references

To assist accountants, financial directors and other financial advisers, some sections of this booklet include statutory references. The statutory references are taken from:

- ITEPA 2003 – the Income Tax (Earnings and Pensions) Act 2003
- SSCBA 1992 – the Social Security Contributions and Benefits Act 1992
- SS(C)R 2001 – the Social Security (Contributions) Regulations 2001

6 If you are unhappy with our service

For information about our complaints procedures go to www.hmrc.gov.uk/complaints-appeals/how-to-complain/index.htm

Part 1 - Working out Class 1A NICs

7 Introduction

Class 1A NICs are due on most taxable benefits. Class 1A NICs are paid by employers. There is no employee contribution payable.

8 How are Class 1A NICs worked out?

Class 1A NICs are worked out in one calculation, using the total cash equivalent figure of all benefits liable for Class 1A NICs.

The rules for working out the cash equivalent of a benefit are the same for both tax and Class 1A NICs. This means that you can use the figures you report on an employee's P11D 'Expenses and Benefits' (or substitute) to work out the amount of Class 1A NICs due. The P11D has been designed to help you do this by showing you which benefits attract a Class 1A NICs liability.

9 How do I work out how much Class 1A NICs I have to pay?

Once you have worked out the cash equivalent of each benefit you provide, including the cash equivalent of car and fuel benefits, you:

- add together each cash equivalent figure recorded on individual P11D forms to get a single figure, and
- multiply that figure by the Class 1A NICs percentage rate

The percentage rate at which Class 1A NICs are worked out is the employer's not contracted-out class 1 NICs percentage rate for the tax year in which the benefits are provided. For the 2014 to 2015 tax year, the Class 1A NICs percentage rate is 13.8%.

Example

During the tax year 2014 to 2015, you provide company cars and private health care to 25 of your employees. The cash equivalent figures reported on each employee's P11D are £150 health care and £3,000 car benefit.

To calculate the amount of Class 1A NICs due:

Step 1	Add the total cash equivalent figures together	
	£150 x 25	£3,750
	£3,000 x 25	<u>£75,000</u>
		£78,750
Step 2	Multiply the figure from Step 1 by the Class 1A NICs percentage rate	
	£78,750 x 13.8%	£10,867.50
	Class 1A NICs due (rounded down)	£10,867

10 When are Class 1A NICs due?

If sending your payment by post it must reach us by 19 July following the end of the tax year.

We recommend you make all of your payments to HM Revenue & Customs (HMRC) electronically. When paying electronically you need to allow enough time for us to have cleared funds by 22 July following the end of the tax year.

You can pay us using a number of different payment methods. HMRC accepts payments made using the Faster Payments Service which clear on the same or next day. However, some electronic payment methods can take 3 bank working days or more to reach our account. Bank working days are Monday to Friday excluding bank holidays.

To make sure you pay on time you should check with your bank or building society well in advance of making a payment to find out about the payment method you intend to use. Check the services available to you, and any single transaction/daily value limits and cut-off times for processing payments, to avoid your payment to HMRC being delayed.

It is your responsibility to make sure that payments are made on time, whichever payment method you use. If your Class 1A is not received on time you may be charged interest and a late payment penalty.

If paying electronically, make sure your accounts office reference number shows the correct tax year and month the payment relates to as the payment you make in July will always be for the previous tax year.

To make a payment in July 2015, for your 2014 to 2015 Class 1A NICs you will need to add 1513 to the end of your accounts office reference. By using 13 as the final two digits you are letting us know that this payment is intended for Class 1A NICs. For example 123PA000123451513 with no gaps – this reference is only an example and should not be used to make a payment. Your reference will be shown on the Class 1A NICs payslip which we will send to you in April. If you have any difficulty with including an extended reference number on your payment request you should speak to your bank or building society or use an alternative payment method.

To check that your reference is correct use our reference checker.

Go to www.hmrc.gov.uk/tools/payinghmrc/class1anic.htm

For more information about payment deadlines go to www.hmrc.gov.uk/payerti/paying/deadline.htm

For more information about late payment penalties go to www.hmrc.gov.uk/payerti/end-of-year/payepenalties.htm

QWC (2015) 'Class 1A NICs on benefits in kind' gives detailed guidance on how Class 1A NICs are reported and paid.

11 Am I liable to pay Class 1A NICs on the cars I provide?

When employees are provided with company cars and fuel that are available for private use, they are usually taxed on these benefits under special Income Tax rules contained in Sections 114, 120 and 149 of ITEPA 2003.

As an employer, you may be liable to pay Class 1A NICs for:

- cars provided by reason of an employee's employment to
 - directors
 - employees who are paid at a rate of £8,500 or more a year, including taxable benefits and expensesif the car is available for private use by the director or employee, or by members of their family or household, and the benefit is chargeable on the director or employee to Income Tax under ITEPA 2003
- fuel provided for private use in those cars

Part 2 of this booklet tells you in what circumstances Class 1A NICs are not due on car and fuel benefits.

12 What is a car?

ITEPA 2003 Section 115(1)

A car is a mechanically propelled road vehicle, which is not:

- a goods vehicle (a vehicle of a construction primarily suited for the conveyance of goods or burdens of any description, for example lorries and vans). Estate cars and recreational 'off-road' vehicles count as cars
- a vehicle of a type not commonly used as a private vehicle and unsuitable to be so used, for example a Grand Prix racing car
- a motorcycle or invalid carriage, as defined in the Road Traffic Act 1988

When a car is part owned by the employee, the High Court has confirmed that car benefit applies to these cars and has always done so.

Where a vehicle does not count as a car there will normally be a taxable benefit under the rules for:

- assets placed at an employee's disposal (read chapter 6 of 480(2015) 'Expenses and benefits – A tax guide')
- vans available for private use (read chapter 14 of 480(2015) 'Expenses and benefits – A tax guide')

These taxable benefits are also included in the calculation of Class 1A NICs liability.

13 What is a company car?

ITEPA 2003 Section 117

Where a car is made available for the private use of an employee (or members of their family or household) by the employer it is deemed to go with the job.

There is one statutory exception to this (section 117). This is where the employer is an individual and it can be shown that the car was provided in the normal course of ordinary domestic, family or personal relationships.

For example an individual who employs a son might, as a parent, provide the son with a car to be used for private purposes only. Facts in support of a claim that it had been so provided would be that it had not been treated as a business asset and that no expense or capital depreciation allowance relating to it had been allowed as deductions in computing the parent's taxable profits.

In addition to the statutory exemption mentioned above, a director or employee earning at a rate of £8,500 or more a year is not taxed on the benefit of the benefit of a car (or fuel for that car) where it is made available for private use to a member of their family or household if the person to whom the car was made available is chargeable on the benefit in their own right.

A charge is similarly not made on any relative where the person to whom the car was made available is not chargeable on the value of the benefit, provided that the person receives the car in their own right as an employee and either:

- It can be shown that the equivalent car is made available to employees in similar employment with the same employer who are unrelated to the directors or those earning £8,500 or more a year, or
- It can be shown that the provision of an equivalent car is in accordance with the normal commercial practice for a job of that kind.

Where an employee has the option of giving up the use of a company car in return for a cash payment, the tax treatment will depend on the choice made by the employee. If the employee keeps the use of the company car, the benefit is taxed accordingly. If the employee gives up the car and takes cash, the cash will form part of the employee's remuneration for tax purposes.

14 Providing company cars and fuel

If you provide car and fuel benefits you will need to calculate their cash equivalents. How you do this is explained in Parts 3 and 4 of this booklet.

You will need to add the cash equivalent of car and fuel benefits to the cash equivalents of other benefits you provided when calculating how much Class 1A NICs are due, read section 9.

In the remainder of this booklet, the cash equivalent of providing a car and fuel for private use is referred to as the car benefit and the fuel benefit.

Part 2 - Exceptions from Class 1A NICs

15 When are Class 1A NICs not payable?

You do not have to pay Class 1A NICs on:

- cars and fuel provided to employees and certain directors who earn at a rate of less than £8,500 per year – read CWG5(2015) 'Class 1A NICs on benefits in kind' for more information
- directors' or employees' privately owned cars
- cars which are used exclusively for business and for which private use is prohibited
- pooled cars, read section 66
- cars provided to certain disabled directors or employees in particular circumstances, read section 74
- a car if the employee reimburses you for the private use of the car and the amount reimbursed equals or exceeds the car benefit, read section 52
- a car if it can be shown that the car was provided by an individual employer in the normal course of their domestic, family or personal relationship, read section 78
- fuel, if it is only made available for business use, but there may be Class 1 NICs liability, read CWG2(2015) 'Employer Further Guide to PAYE and NICs'
- fuel, if the director or employee is required to reimburse the full cost of the fuel supplied for private use and does so, read section 62

Part 3 - Working out the car benefit

16 Introduction

This section, including the examples, explains how car benefit is worked out.

17 How do I work out the car benefit?

ITEPA 2003 Section 121(1)

Car benefit is calculated in a series of numbered steps (more details start at the sections given).

- 1 Find the price of the car (read section 19).
- 2 Add the price of any accessories which fail to be taken into account (read section 26).
- 3 Make any required deduction for capital contributions by the employee (read section 34).
- 4 Find the appropriate percentage for the car (read section 40).
- 5 Multiply the figure at Step 3 by the appropriate percentage at Step 4 (read section 48).
- 6 Make any required deduction for periods when the car was unavailable (read section 49).
- 7 Make any required adjustment for a shared car.
- 8 Make any required deduction for payments by the employee for private use of the car (read section 52).

This method of calculation is modified in the case of:

- cars that run on road fuel gas (Steps 1, 2 and 4, see section 18)
- classic cars (those 15 years of age or more; Steps 1 to 3, see section 36)

There are special rules for disabled drivers affecting Step 2 (see section 33) and Step 4 (see section 46).

Finally, the benefit calculated may be reduced where the car is shared (see section 73).

The P11D Working Sheet 2 is available to help you work out the car benefit, which is the amount you record on an employee's P11D (or substitute) and is the amount on which Class 1A NICs are worked out.

An example of how car benefit is worked out is shown at section 59.

18 Cars which run on 'road fuel gas'

Up to 2010 to 2011 there are different rules for the 3 types of car under this heading:

- 1 cars manufactured to run on road fuel gas which were first registered in 2000 or later and which have approved CO₂ emissions figures for gas and another fuel: adjustment at Step 4 for P11D type B cars, read section 45
- 2 all other cars manufactured to run on road fuel gas: adjustments at Step 1 (read section 24) and Step 4 for P11D type C cars, see section 45
- 3 cars converted to run on road fuel gas: adjustments at Step 2 (read section 32) and Step 4 for P11D type C cars, read section 45.

Road fuel gas means any substance which is gaseous at a temperature of 15°C and under a pressure of 1,013.25 millibars, and which is for use as fuel in road vehicles. The 2 types of road fuel gas currently in use are compressed natural gas (CNG) and liquid petroleum gas (LPG).

From 2011 to 2012 these cars are categorised as Type A and there are no adjustments to the percentage used in Step 4.

Step 1 - The price of the car

19 What is the price?

ITEPA 2003 Sections 122 to 124

The price of a car means its:

- list price, if it has one (read section 20)
- notional price, if it has no list price (read section 21)

20 What is the list price?

ITEPA 2003 Section 123

The list price is the inclusive price published by the manufacturer, importer or distributor of the car if sold singly in a retail sale in the open market in the UK on the day before the date of the car's first registration.

It includes standard accessories, any relevant taxes (Value Added Tax, car tax (where appropriate), any customs or excise duty, any tax chargeable as if it were a customs duty) and delivery charges, but this excludes the new car registration fee because it is an administration fee, not a tax. The list price is not the dealer's advertised price for the car, nor the price paid for the car, which may incorporate discounts or cashbacks from the list price.

21 What is the notional price of a car?

ITEPA 2003 Section 124

The normal price is the list price. Only if there is no list price can the notional price be used.

The notional price of a car is the price which might reasonably have been expected to be its list price if its manufacturer, importer or distributor had published a price as the inclusive price appropriate for a sale of a car of the same kind sold singly in a retail sale in the open market in the UK on the day before the date of the car's first registration.

The notional price includes all accessories equivalent to the qualifying accessories (section 26) available with the relevant car at the time when it was first made available to the employee (that is, all accessories which would otherwise be added at Step 2 as in the case of extra accessories, read section 29), and any relevant taxes (as in section 20).

22 Can I deduct a discount from the price of a car?

For car benefit purposes, the price of a car is the list price of a car which may not be what was paid for the car. No deduction can be made for any discount obtained on the purchase of the car.

23 What happens if I provide second-hand cars?

Second-hand cars are dealt with in the same way as new cars. The list price is the price on the day before it was first registered, that is when it was new.

24 Cars manufactured to run on 'road fuel gas' (type (2) in section 19)

ITEPA 2003 Section 146

The price of the car found under Step 1 is reduced by so much of that price as it is reasonable to attribute to the car being manufactured in such a way as to be capable of running on road fuel gas rather than only on petrol.

Normally, this means replacing the price of the car that can run on road fuel gas with the (lower) price of the petrol-only equivalent model.

25 Automatic car for a disabled employee

From 2009 to 2010 only, if the only car that an employee who holds a disabled person's badge can drive is one with automatic transmission, the price of the car is the list (or notional, where appropriate) price of the closest manual equivalent, which:

- is a car first registered at or about the same time as the automatic car, and
- does not have automatic transmission, but otherwise is the closest variant available of the make and model of the automatic car

Step 2 - Accessories

26 What is a 'qualifying accessory'?

ITEPA 2003 Section 125

A qualifying accessory is an accessory which:

- a is made available for use with the car without any transfer of the property in the accessory
- b is made available by reason of the employee's employment
- c is attached to the car (whether permanently or not)

Notes

- Condition 'a' means that accessories which the employee owns are not included, for example, where an employee buys their own in-car stereo system.
- Condition 'c' means that only accessories which are attached to the car are qualifying accessories. A roof rack, for example, which can be removed from time to time will be a qualifying accessory if the other conditions are satisfied. Optional accessories such as car rugs, loose tools, maps and so on, which are not attached to the car, are not included.

27 What is the meaning of 'accessory'?

ITEPA 2003 Section 125(2)

'Accessory' includes any type of equipment but does not include:

- a an accessory necessarily provided for use in the performance of the duties of the employment
- b equipment by means of which a car is capable of running on road fuel gas (read section 32)
- c equipment to allow a disabled person to use the car (read section 33)
- d a mobile phone

Condition 'a' means that those accessories which are necessarily provided for use in the performance of duties of the employee's employment are not counted. For example, a tow bar fitted to a car because the employee is required to tow a trailer carrying the equipment needed to carry out their duties. The price of the tow bar is disregarded at Step 2 and so it is not taxable as a benefit, whether or not any private use is made of it.

ITEPA 2003 Section 125A

From 6 April 2011 the cost of certain security enhancements will not be included in the cost of accessories where they are provided to safeguard the life of the employee because the nature of their employment creates a threat to their personal safety. These enhancements are:

- armour designed to protect the car's occupants from explosions or gunfire
 - bullet resistant glass
 - any modifications to the fuel tank designed to protect the contents from explosions or gunfire (including making the tank self-sealing)
 - any modifications made to the car as a consequence of the preceding
- 3 examples

28 What are the rules for accessories?

Accessories are dealt with in 3 groups:

- initial extra accessories (those with the car when it is first made available to the employee, read section 29)
- later accessories (those added after the car was first made available to the employee, read section 30)
- replacement accessories (which can be replacements for accessories in either of the above groups, read section 31)

In all cases, the price includes any charge for delivering the accessory to the seller's place of business, Value Added Tax and any fitting charges.

29 Initial extra accessories

ITEPA 2003 Sections 126(2) and 127(1)

The price of these is only added to a car with a list price (the notional price of the car at section 21 includes them).

An initial extra accessory is a non-standard accessory which is available with the car at the time when it is first made available to the employee.

The price of an initial extra accessory is:

- a the list price published by the manufacturer, distributor or importer of the car for the day immediately before the date of the car's first registration, ITEPA 2003 Section 128
- b if there is no such price, the list price published by the manufacturer, distributor or importer of the accessory at the time immediately before the accessory is first made available with the car, ITEPA 2003 Section 129, or
- c if there is no list price of either kind, the notional price (the inclusive price it might reasonably have been expected to fetch at the time immediately before the accessory is first made available with the car), ITEPA 2003 Section 130

The price of those in category 'a' is added whether or not they are available with the car in the tax year in question. The price of those in categories 'b' and 'c' are added if they remain available with the car at any time in the tax year in question.

Both list and notional prices are for the accessory if sold singly in a retail sale in the open market in the UK and include any relevant taxes (see section 20) other than car tax.

30 Later accessories

ITEPA 2003 Sections 126(3) and 127(2)

The price of later accessories is added to all cars. The price is in either category 'b' or 'c' of section 29, as appropriate, and is calculated on the same basis.

A later accessory is one which was not available with the car at the time when it is first made available to the employee, but is available in the tax year in question.

Later accessories are disregarded if added before 1 August 1993 or if the price does not exceed £100.

The lower limit of £100 means that inexpensive accessories which are made available during the period are not included in the benefit charge. However, a set of items should not be divided for this purpose – for example, a set of 4 alloy wheels with a total cost of £300 is not treated as 4 separate wheels each with an individual cost of £75.

If a later accessory is added part-way through a tax year, its price is included at Step 2 for the whole year. There is no time-apportionment.

31 Replacement accessories

ITEPA 2003 Section 131

A replacement accessory is an accessory which replaces another qualifying accessory ('the old accessory') and is of the same kind as the old accessory. 'Kind' for this purpose depends on function: a radio/cassette player and a radio/CD player are not of the same kind because their function is different, whereas alloy wheels are of the same kind as steel wheels because their function is the same.

Where the replacement accessory is not superior to the old accessory, Step 2 operates as though the replacement had not been made. The price of the original accessory continues to be counted (even though it may have been removed in an earlier tax year) and the price of the replacement is ignored.

Where an accessory is replaced by a superior accessory, the price of the replacement accessory is added at Step 2 in the normal way but the price of a non-standard old accessory is disregarded (note that the price of a standard accessory counted at Step 1 is not disregarded).

32 Cost of converting a car to run on road fuel gas

ITEPA 2003 Section 125(2)(b)

The cost of equipment to allow a car to run on road fuel gas is not treated as an accessory and therefore the cost of conversion to run on road fuel gas is not added at Step 2.

33 Equipment for disabled people

ITEPA 2003 Section 172

Equipment to allow a disabled person to use the car is not counted as an accessory (and therefore its price is disregarded at Step 2) if it is either:

- designed solely for use by a chronically sick or disabled person (for example hand controls for people who are unable to operate ordinary pedal controls, or fittings to allow a wheelchair user to use the car), or
- if the employee holds a disabled person (blue) badge at the time the car is first made available to them, other equipment which is made available for use with the car as a non-standard accessory because it allows the employee to use the car in spite of the disability which entitles them to the blue badge. For example, optional power steering or electric windows on a car made available to an employee who would not be capable of operating it without them, but note that there is no reduction for such items if they are fitted as standard accessories because these are accounted for at Step 1.

Step 3 - Capital contributions

34 What is the effect of a capital contribution?

ITEPA 2003 Section 132

The effect of Step 3 is to reduce the amount carried forward from Step 2 where the employee has contributed a capital sum, or capital sums, to expenditure on the provision of:

- the car (Step 1)
- any qualifying accessory (so long as it is taken into account at Step 2)

The amount to be deducted is the lesser of:

- the total of the capital sums contributed by the employee in that and any earlier years to expenditure on the provision of the car or any qualifying accessory taken into account at Step 2
- £5,000

Capital contributions are payments towards the cost of the car or qualifying accessories. They should not be confused with payments for private use of the car, read section 52.

35 For what years is the amount allowed?

ITEPA 2003 Section 132(2)

The deduction under section 34 is made for the year in which the contribution is made and all subsequent years in which the employee is chargeable to tax for the car. Therefore, if the car is transferred from one employee to another, the first employee's contributions are not taken into account in calculating the benefit of that car for the second employee.

Steps 1 to 3 - Changes for classic cars

36 What is a classic car?

ITEPA 2003 Section 147

Steps 1 to 3 are varied in the case of a classic car whose list price is low compared with its current value.

A classic car is 15 years old or more at the end of the year of assessment, and:

- with a market value for the year of £15,000 or more
- that market value exceeds the amount carried forward from Step 3 above

When all the above conditions are met, substitute the market value of the classic car for the year less any capital contribution for the amount otherwise carried forward from Step 3 above.

37 What is the market value?

The market value of a classic car is the price that it might reasonably have been expected to fetch at a sale in the open market on the last day in the tax year when it was available to the employee, on the assumption that any qualifying accessories available with the car on that day are included in the sale.

Market values of classic cars may be found in specialist publications, contemporaneous sale documents or insurance details for the car concerned. If a classic car is bought in a poor state of repair and is restored during the year, then it is the market value of the restored vehicle on the last day in the tax year when it was available to the employee which is used, not the cost of the earlier purchase.

38 What about capital contributions towards classic cars?

The amount to be deducted is calculated in exactly the same way and with the same limit as for other cars (read section 34).

Example

Steps 1 to 3 for a classic car

A classic car is provided to an employee for private use. The market value of the car is £90,000 (its original list price was £10,000). The employee makes a capital contribution towards the cost of the car of £4,000.

Step 1

Price of the car under normal rules	£10,000
-------------------------------------	---------

Step 2

Accessories (all are non-superior replacements)	£0
	<u>£10,000</u>

Step 3

Deduct capital contributions	<u>(£4,000)</u>
------------------------------	-----------------

Figure carried forward from Step 3	£6,000
---	---------------

The car is over 15 years old at the end of the tax year and its market value is greater than the figure carried forward from Step 3, so it is a classic car.

Substitute the figure carried forward from Step 3 for market value

Market value	£90,000
--------------	---------

Deduct capital contributions	<u>(£4,000)</u>
------------------------------	-----------------

Figure carried forward from Step 3	£8,000
---	---------------

39 What is the price cap?

ITEPA 2003 Section 121(1)

Until 2010 to 2011 the figure at Step 3 was restricted to an upper limit of £80,000. This applied to all cars, classic or otherwise.

From 2011 to 2012 this price cap does not apply.

Example

Steps 1 to 3 for a classic car

A classic car is provided to an employee for private use. The market value of the car is £120,000 and its original list price was £18,000. The employee makes a capital contribution of £5,000.

Step 1

Price of the car under normal rules	£18,000
-------------------------------------	---------

Step 2

Accessories (all are non-superior replacements)	£0
	<u>£18,000</u>

Step 3

Deduct capital contributions	<u>(£5,000)</u>
------------------------------	-----------------

Figure at Step 3	£13,000
-------------------------	----------------

The car is over 15 years old at the end of the tax year and its market value is greater than both the figure calculated at Step 3 and £15,000, so it is a classic car. Substitute market value for the figure at Step 2.

Market value	£120,000
--------------	----------

Deduct capital contributions	<u>(£5,000)</u>
------------------------------	-----------------

Figure at Step 3	£115,000
-------------------------	-----------------

As there is no longer any cap on the list price of a car used in the calculation, the figure multiplied by the appropriate percentage is £115,000.

Step 4 - The appropriate percentage

40 What is the approved CO₂ emissions figure?

ITEPA 2003 Sections 134 to 136

Cars registered in the UK and in other European Community countries must be submitted by their manufacturers or importers for a 'type approval' test. The level of CO₂ emitted by the car is one of the factors reviewed in the course of the test. The approved CO₂ emissions figure for car benefit purposes is that which is recorded on the type approval certificate summarising the results of the type approval testing procedure. The result of this test is available in various ways.

For cars first registered:

- on or after 1 January 1998 with an approved CO₂ emissions figure, read sections 41 to 43 and 45
- on or after 1 January 1998 without an approved CO₂ emissions figure, read sections 44 and 45

Please note: For car benefit purposes, the CO₂ emissions figure that applies at the date of first registration is set for the life of the car.

41 How do I find the approved CO₂ emissions figure?

The Vehicle Certification Agency (VCA) supplies CO₂ (and other emissions) data. For information on CO₂ emissions for both new (unregistered) and used (registered) cars go to carfueldata.direct.gov.uk

For more information on vehicles and CO₂ emissions go to www.dft.gov.uk/vca/index.asp

Withdrawn - do not use

42 What if I find two contradictory CO₂ emissions figures?

The figures should normally be the same if they relate to the same car and the same year. You should make sure that you refer to the source of information that is most appropriate for the age of the car in question. If you have kept a copy of the VCA booklet, New car fuel consumption and emissions figures, from an earlier year, remember that there is no need to check both websites once you have found the CO₂ figure for the right model of car and year. If you do happen to find a small discrepancy, then use the lower figure. If you find a larger discrepancy, contact us for advice.

Remember, for cars registered 1 March 2001 and later, the Vehicle Registration Certificate (V5C) is the definitive source of the approved CO₂ emissions figure.

43 Cars with a CO₂ emissions figure first registered on or after 1 January 1998 only

ITEPA 2003 Section 139

Qualifying low emissions cars

From 2008 to 2009 up to 2011 to 2012, there are special rules for 'qualifying low emissions cars' (also known as QUALEC).

From 2008 to 2009 up to 2009 to 2010, these are cars (other than P11 E cars) with CO₂ emissions figures not exceeding exactly 120g/km; the normal rounding rules are not applied, so a car with CO₂ emissions of 121g/km is not a qualifying low emission car. These cars have an appropriate percentage of 10%.

From 2010 to 2011 up to 2011 to 2012 a qualifying low emission car has CO₂ emissions between 1 and 75g/km and the appropriate percentage is 5%.

QUALECS are subject to an adjustment for diesel cars.

From 2012 to 2013 up to 2014 to 2015 and onwards there are no longer special rules for qualifying low emission cars; cars with emissions between 1 and 75g/km have an appropriate percentage of 5% (diesel cars are subject to an adjustment).

Ready reckoner

The ready reckoner gives the appropriate percentages for a petrol-powered car for 2014 to 2015 onwards.

The exact CO₂ figure is rounded down to the next 5g/km for this purpose (that is, for 188 use 185) except where the car is a QUALEC.

From 2015 to 2016 there are two new appropriate percentage bands:

- 0 - 50 g/km
- 51 - 75 g/km

CO ₂ emissions (g/km)	2014 to 2015	2015 to 2016	2016 to 2017 onwards
0	0	5%	7%
1 to 50	5%	5%	7%
51 to 75	5%	9%	11%
76 to 94	11%	13%	15%
95	12%	14%	16%
100	13%	15%	17%
105	14%	16%	18%
110	15%	17%	19%
115	16%	18%	20%
120	17%	19%	21%
125	18%	20%	22%
130	19%	21%	23%
135	20%	22%	24%
140	21%	23%	25%
145	22%	24%	26%
150	23%	25%	27%
155	24%	26%	28%
160	25%	27%	29%
165	26%	28%	30%
170	27%	29%	31%
175	28%	30%	32%
180	29%	31%	33%
185	30%	32%	34%
190	31%	33%	35%
195	32%	34%	36%
200	33%	35%	37%
205	34%	36%	37%
210	35%	37%	37%
215	35%	37%	37%
220 or greater	35%	37%	37%

This is subject to adjustments for cars powered by other fuels as shown at section 45.

Example

The appropriate percentage for a petrol car:

- Price of the car is £15,000. Approved figure of CO₂ emissions is 163g/km.
 - Round 163 down to 160.
 - Look up percentage for 2014 to 2015 in ready reckoner: 25%.
 - No adjustments are needed (read section 45), so this is the appropriate percentage.
 - The figure at Step 6 for 2014 to 2015 is £15,000 x 25% = £3,750.
- Appropriate percentage rate is 27% for 2015 to 2016 and 29% for 2016 to 2017 onwards.

44 Cars first registered on or after 1 January 1998 without an approved CO₂ emissions figure

ITEPA 2003 Section 140

The appropriate percentage for the very few cars with an internal combustion engine and one or more reciprocating pistons but without an approved CO₂ emissions figure is based on their engine size, as follows:

Cylinder capacity of car in cubic centimetres	Appropriate percentage
1,400 or less	15%
More than 1,400 but not more than 2,000	25%
More than 2,000	37%

If the car does not have an internal combustion engine with reciprocating pistons, the appropriate percentage is:

- if the car cannot emit CO₂ in any circumstances by being driven the appropriate percentage is 0% for 2010 to 2011 up to 2014 to 2015, 2015 to 2016 5% and for 2016 to 2017 7%.
- in any other case (for example a car with a rotary Wankel engine) the appropriate percentage is:
 - 35% up to 2014 to 2015
 - 37% from 2015 to 2016

This is subject to adjustments for cars powered by other fuels as shown in section 45.

45 Cars first registered on or after 1 January 1998 – adjustments to the appropriate percentage

ITEPA 2003 Sections 137 and 141, SI 2001 No 1123

The following adjustments are made to the appropriate percentage obtained from sections 43 and 44.

Read the examples on the opposite page. Only the adjustments for type D cars apply to QUALECs (read section 43).

From 2011 to 2012 onwards the diesel supplement applies to all diesel cars and no reductions are available for alternative fuels. From 2016 to 2017 the 3% diesel supplement is no longer applied, the effect on the P11D code has not yet been decided.

For 2011 to 2012 onwards the following table of adjustments applies.

Type of fuel	P11D code from 2015 to 2016	P11D code from 2011 to 2012	Former codes	Adjustment	Note
Zero emission cars (including electric cars)	A	E	E	None	1
Diesel cars (all Euro Standards)	D	D	D, L	Supplement: 3% (up to 2015 to 2016)	2
All other cars	A	A	P, B, C, H, G	None	3

Notes

From 2016 to 2017 the 3% diesel supplement is no longer applied, the effect on the P11D code has not yet been decided.

- 1 The appropriate percentage for type E cars is 0% for 2010 to 2011 until 2014 to 2015 inclusive. From 2015 to 2016 two new appropriate percentage bands are introduced and the type E code will no longer be used.
- 2 Subject to the overall maximum percentage of 35%.
- 3 Former type B cars have different CO₂ emissions figures for different fuels; the lowest CO₂ figures can still be used (normally that for gas).

46 Cars first registered on or after 1 January 1998 – reduction for disabled employees

ITEPA 2003 Section 138

If the only car that an employee who holds a disabled person's badge can drive is one with automatic transmission, the appropriate percentage is calculated using the approved CO₂ emissions figure of the closest manual equivalent, which is:

- a car first registered at or about the same time as the automatic car, and
- which does not have automatic transmission, but otherwise is the closest variant available of the make and model of the automatic car

47 The appropriate percentage for all cars first registered before 1 January 1998

ITEPA 2003 Section 142

The appropriate percentage for every car first registered before 1 January 1998 is based on its engine size, even if (exceptionally) it has an approved CO₂ emissions figure:

Cylinder capacity of car in cubic centimetres	Appropriate percentage up to 2015 to 2016	Appropriate percentage up to 2016 to 2017
1,400 or less	15%	16%
More than 1,400 but not more than 2,000	25%	27%
More than 2,000	37%	37%

If the car does not have an internal combustion engine with reciprocating pistons, the appropriate percentage is:

- Up to 2009 to 2010 the appropriate percentage is 15% if it is a car propelled solely by electricity (for example by a battery). (From 2010 to 2011 this legislation is repealed and the appropriate percentage in the bullet below will apply.)
- In any other case (for example a car with a rotary Wankel engine) the appropriate percentage is 37% up to 2015 to 16 and from 2016 to 2017 37%.

Please note that the adjustments in sections 45 and 46 do not apply to cars first registered before 1 January 1998.

Step 5 – Calculating the car benefit charge for a full year

48 How do I calculate this?

ITEPA 2003 Section 121(1)

The cash equivalent of the benefit of the car for a full year is calculated by multiplying the figure from Step 3 (the price of the car and accessories) by the appropriate percentage from Step 4.

Step 6 – Reduction for periods when the car is unavailable

49 When is this reduction available?

ITEPA 2003 Section 143

When the car is unavailable for any part of the year, the figure carried forward from Step 6 is reduced in proportion to the number of days of unavailability.

50 What is the meaning of 'unavailable'?

ITEPA 2003 Section 143(2)

A car is treated as being unavailable on any day if the day:

- falls before the first day on which the car is available to the employee, or
- falls after the last day on which the car is available to the employee, or
- falls within a period of 30 consecutive days or more throughout which the car is not available to the employee

51 Replacement cars

ITEPA 2003 Section 145

If the normal car is not available for a period of less than 30 days, there is no reduction because the car is not unavailable.

If during that period the employee is provided with a replacement car, it is not also charged as a benefit if:

- it is not materially better than the normal car, or
- it is not provided as part of an arrangement whose purpose was to provide the employee with a materially better car than the normal car

Example

An employee started employment on 22 April and a car was made available for private use from that day. The period of unavailability was 6 April to 21 April inclusive, that is 16 days.

A different car was involved in an accident on 3 November. Between that date and 4 December the car was under repair in a garage. On 4 December the employee collected the car from the garage. The car was incapable of being used for a continuous period of 30 days, from 4 November to 3 December inclusive, so it was unavailable for that period. If the car had been repaired and ready for collection on 30 November, the car would only have been unavailable for 26 consecutive days and so would not be treated as unavailable for any part of this period.

Where these conditions are fulfilled the benefit of the car to each employee is:

- calculated separately under Section 121, and
- then reduced on a just and reasonable basis

However, only availability to those chargeable on the benefit of the car is to be taken into account in making the reduction. Any availability to employees not so chargeable (either because their earnings are insufficient or because they are prohibited from using the car privately and do not do so) is to be disregarded. The total amount chargeable in respect of the car is therefore the same as if the car had been available to only one employee for private use and there had been no sharing.

Step 7: Adjustment for shared car

ITEPA 2003 Section 147

A shared car is one:

- which is available to more than one employee concurrently made available by the same employer
- available concurrently for each employee's private use, and
- for which two or more of those employees are chargeable to tax for that year

Where these conditions are fulfilled the benefit of the car to each employee is:

- calculated separately under Section 121, and
- then reduced on a just and reasonable basis

However, only availability to those chargeable on the benefit of the car is to be taken into account in making this reduction. Any availability to employees not so chargeable (either because their earnings are insufficient or because they are prohibited from using the car privately and do not do so) is to be disregarded. The total amount chargeable in respect of the car is therefore the same as if the car had been available to only one employee for private use and there had been no sharing.

Step 8 - Reduction for payments for private use

52 When is this reduction available?

ITEPA 2003 Section 144

Payments that an employee makes for the private use of the car are deducted from the figure carried forward from Step 7 and can reduce the benefit charge to nil.

To qualify as a deduction:

- there must be a requirement in the year to make payments as a condition of the car being available for private use
- from 2014 to 2015 the wording of this section changed to ensure that any payment for private use must be paid within the relevant tax year
- the payments must be specifically for that private use. Payments for supplies or services, such as petrol or insurance, do not count

Any payments which the employee makes specifically for the private use of a replacement car, as described in section 51, are allowed as though they were payments for the private use of the normal car in that period.

53 What is 'business travel'?

ITEPA 2003 Section 171(1)

'Business travel' means travel for which expenses would qualify for deduction if they were incurred by the employee. Broadly, this means travelling expenses which involve 2 types of business journey.

These are:

- journeys that employees have to make in the performance of their duties
- journeys that employees make to or from a place they have to attend in the performance of their duties – but not journeys which are ordinary commuting or private travel

Detailed guidance on the types of journey which give rise to qualifying travelling expenses is contained in 490 'Employee travel – A tax and NICs guide for employers'.

Employees' payments made towards a better make or model of car do not count as payments towards private use.

Private use means any use other than for the employee's business travel.

This therefore includes commuting journeys.

Example

Working out the car benefit using all available reductions

An employee is provided with a car on 1 May 2015 for business and private use. The car has a list price of £13,000. It is supplied with automatic transmission and a sunroof as optional extras. These items have a list price of £800. The employee makes a capital contribution of £4,000 towards the car and £200 towards the optional accessories. The employee also pays £50 per month for the private use of the car. CO₂ emissions are 165g/km.

Step 1

Find the price of the car £13,000

Step 2

Add the price of any accessories (£13,000 + £800) £800
£13,800

Step 3

Make any required deductions for capital contribution (£13,800 minus £4,200) £4,200
£9,600

Step 4

Find the appropriate percentage for the car - read section 43 28%

Step 5

Multiply Step 3 by Step 4 (£9,600 x 28%) £2,688

Step 6

Make deduction for period before car is made available. This is 6 April to 30 April and equals 25 days
£2,688 minus $\frac{25}{365} \times £2,688$ £2,504
(rounded down)

Step 7

Deduct payments by the employee for private use (11 x £50) £550

Car benefit £1,954

Part 4 - Working out the fuel benefit

54 Introduction

This section tells you what NICs are due if you provide fuel to your employees for use in a company car.

It also tells you how you work out the fuel benefit.

Where you do not directly meet the cost of fuel used for business in a company car but pay the employee a business mileage allowance, no fuel benefit charge will arise if the mileage allowance does no more than meet the cost of fuel used for business travel.

If the mileage allowance is excessive, but it is only paid for genuine business travel, the profit element will be chargeable to tax in the normal way. However, a car fuel benefit charge will arise where, for instance, the payments to the employee cover travel between home and work.

For the full background about the advisory fuel rates and details of both current and past rates, go to www.gov.uk/government/publications/advisory-fuel-rates

This makes clear that there is no obligation to use the advisory fuel rates.

Where you wish to use them, they only apply where you:

- reimburse employees for business travel in their company cars; or
- require employees to repay the cost of fuel used for private travel in those company cars

55 Methods of provision

The general rule is that whatever method you use, for example, supply from your own pumps, credit card, voucher or reimbursement of your employees' fuel bills, to provide fuel for private use in a company car, Class 1A NICs will be due on that fuel.

56 Exceptions to this general rule

If you pay a round sum allowance, which bears no relation to the actual expenses incurred, you must include the allowance with the employee's gross pay and pay Class 1 NICs in the normal way.

If you pay a mileage allowance, a liability for Class 1 NICs may arise.

For more information about round sum allowances, go to www.hmrc.gov.uk/payerti/exb/a-z/e/expenses.htm

57 What if I provide fuel for business use only?

Fuel supplied for business use only is not taken into account when calculating Class 1A NICs if:

- none of the fuel was used for private purposes, or
- the fuel was used for private mileage but the employee reimbursed the full cost

58 When is there a car fuel benefit charge?

ITEPA 2003 Section 149

Where fuel is provided for a car, the benefit of which is taxed in accordance with Part 3 (referred to below as 'company cars' for short), a **car fuel benefit charge** will normally apply to tax the fuel provided in addition to the car benefit charge.

Accordingly a liability for Class 1A NICs may arise.

The Class 1A NICs you have to pay will depend on whether:

- the fuel is only supplied for business (read section 57)
- the employee has fully reimbursed the cost of the fuel used privately (see section 62)

59 Calculating the car fuel benefit charge for a whole year

ITEPA 2003 Section 150

Cars

The car fuel benefit charge is calculated by multiplying 2 figures:

- a fixed sum £12,100 from 2015 to 2016; £21,700 from 2014 to 2015 and £21,700 for 2013 to 2014
- the appropriate percentage used to calculate the car benefit (read section 40 onwards)

There is never any need to calculate a new appropriate percentage for car fuel benefit. In every case, whether or not the car has an approved CO₂ emissions figure, the appropriate percentage used to calculate the car benefit charge is used to calculate the car fuel benefit charge.

Example 1

A car powered by petrol has CO₂ emissions of 180g/km, so the appropriate percentage used to calculate the car benefit charge for 2014 to 2015 is 29%.

The fuel benefit charge is £21,700 × 29% = £6,293.

60 Reducing the charge – car unavailable

ITEPA 2003 Section 152(1)

The car fuel benefit charge is reduced proportionately for periods for which the car is unavailable (read section 49). The proportion by which the charge is reduced is the same for both car benefit and car fuel benefit.

61 Reduction because private fuel is withdrawn

ITEPA 2003 Section 152

The car fuel benefit charge is reduced if free fuel ceases to be provided to an employee during the tax year.

However, if free fuel is received again later in the same tax year the car fuel benefit is not reduced.

62 Employee reimburses cost of fuel provided for private use

ITEPA 2003 Sections 151(2) and 152(2)

If the employee reimburses the full cost of any fuel provided for private use, the fuel benefit charge is reduced to nil.

Partial reimbursement by the employee of the cost of fuel provided for private use does not reduce the fuel benefit charge.

If an employee is required to repay the cost of private fuel, they can:

- pay a sum of money
 - directly, or
 - by deduction from pay, or
- replace the fuel used for private mileage by an equal amount of fuel purchased by them

When an employee reimburses you from their salary, do not deduct the reimbursement from gross pay before calculating the Class 1 NICs and PAYE Income Tax.

Example 1

Partial reimbursement

An employee is provided with fuel costing £2,000 for the company car in the example at section 59. The employee reimburses the company by £1,000.

As the employee has failed to fully make good the cost of the private fuel, the car fuel benefit charge still applies and Class 1A NICs are due on the full amount of the charge.

63 Providing fuel for use in an employee's privately owned car

Class 1A NICs may be due if you provide fuel, for example from your own fuel pump, or by means of a garage or agency fuel card, for use in an employee's own car. Read CWG5(2015) 'Class 1A NICs on benefits in kind for more information'.

The fuel benefit charges do not apply to fuel provided for use in an employee's own vehicle, or in a vehicle hired by the employee. The expense incurred by you as an employer (or another person on behalf of the employer) in providing fuel for any such vehicle is taxable upon the employee.

Part 5 - Special cases

64 Introduction

This section deals with some less common situations and some cases where there may be no liability for Class 1A NICs on car and fuel benefits.

Employees going and coming from abroad

65 General

Some employers provide cars to employees who are required to work abroad. These cars may be:

- provided to employees whilst they are abroad
- left behind for their use once they return
- available to family members whilst they are abroad

For employees going to, or coming from, abroad who are provided with company cars, 2 factors determine whether there is a Class 1A NICs liability.

For Class 1A NICs liability to arise:

- the benefit of the car must be chargeable to Income Tax under ITEPA 2003, even though tax may not actually be paid, and
- there must be liability for employer Class 1 NICs for any part of the tax year in which the car was provided for private use. In some cases a liability for Class 1 NICs may arise for only a proportion of a tax year because of the rules that apply to people working abroad. Guidance on Class 1 NICs for people working abroad can be found online.

Go to www.hmrc.gov.uk/nic/work/index.htm

If you are unsure whether an employee, who either comes from or goes abroad, is chargeable to Income Tax on the provision of a car which is available for private use, please contact the Employer Helpline.

If you are unsure whether you are liable to pay employer Class 1 NICs on earnings paid to the employee or the period for which there is liability to pay Class 1A NICs, contact the Employer Helpline.

Once you have established that a liability for Class 1A NICs arises, the calculation is the same as for any other car. Liability for Class 1A NICs ceases if liability for Class 1 NICs also ceases. For any such period, the car is treated as being unavailable and you can apply the appropriate adjustment to the amount of Class 1A NICs due (read section 49).

If Class 1A NICs are due for a car provided to an employee who has come from or is going abroad, you will need to keep the same records as you would for any other car. You may also need to keep a note of the relevant exchange rates, so that you can determine the correct amount of Class 1A NICs due.

Pooled cars

ITEPA 2003 Section 167

66 General

There is no tax charge on the benefit of a car if it is a pooled car, used only by employees. Similarly, there is no liability to pay Class 1A NICs for that car or for fuel supplied for that car. There may, however, be a liability for Class 1 NICs if a lump sum or mileage allowance is paid, read CWG2(2015) 'Employer Further Guide to PAYE and NICs'.

67 Conditions

A car only qualifies as a pooled car if all of these conditions are satisfied:

- a it is made available to, and actually used by, more than one employee
- b it is made available, in the case of each of those employees, by reason of their employment
- c it is not ordinarily used by one of them to the exclusion of the others
- d any private use by any employee is merely incidental to their business use of it
- e it is not normally kept overnight on or near the residence of any of the employees unless it is kept on premises occupied by the provider of the car.

The reference to employees above means any employee irrespective of the level of earnings.

68 Meaning of 'merely incidental to'

ITEPA 2003 Section 167(3)(d)

The expression 'merely incidental to' imposes a qualitative rather than a quantitative test. The use of a car for what is primarily a business journey but embracing some limited private use would be within the terms of 'b' in section 67 above. A simple example might be where an employee who is required to undertake a long business journey is allowed to take a pooled car home the previous night in readiness for an early morning start. The office to home journey although private is, in this particular context, subordinate to the lengthy business trip the following day and is undertaken to further the business trip. In short, it is **merely incidental to** the business use of the car on that occasion. A reservation is necessary in this type of case: if it happened too often, condition 'e' in section 67 above would not be met.

69 Meaning of 'not normally kept overnight'

ITEPA 2003 Section 167(3)(e)

It is accepted that a car is **not normally kept overnight** at or near the homes of employees if the number of occasions on which it is taken home by employees does not amount to more than 60% of the year. But where a car is garaged at employees' homes on a large number of occasions, although for less than 60% of the year, it is unlikely that all the home-to-work journeys would satisfy the 'merely incidental to' test in section 68.

70 Inadequate parking facilities

All 5 conditions of section 67 must be satisfied if the car is to qualify for exemption as a pooled car. So a car which met the four tests at 'a' to 'd' in section 67 but which was normally taken home at night by an employee because of inadequate parking facilities at the employer's premises, would fail test 'e' in section 67 and would thus not count as a **pooled car**.

71 Car fails any of the conditions for a pooled car

If a car fails any of the conditions for being a pooled car, it may be regarded as a shared car.

Shared cars

SS(C)R 2001 Reg 36

72 General

A shared car can be:

- 1 a car made available for concurrent use by 2 or more employees by reason of their employment and available for private use by both, or
- 2 a car which is made available for private use to one employee by reason of 2 or more employed earners' employments with the same or different employers.

For 1, a Class 1A NICs liability will arise for each employee.

For 2, each employment attracts a Class 1A NICs liability. If the 2 employments are with the same employer, the calculation will need to take into account any differences in the employee's conditions of employment in the separate employments.

73 Working out Class 1A NICs for a shared car

When working out the car benefit for Class 1A NICs purposes in shared car situations, ignore sharers who are:

- employees, other than directors, who are remunerated at a rate of less than £8,500 a year including taxable benefits and taxable expense
- 'employee directors' who fall into the above category

The following explains the general principles involved but they will not all apply in all cases.

Step 1

Work out the car benefit for the car as if each employee who shares it had the sole use of the car.

Step 2

The amount of Class 1A NICs can be adjusted after action as in Step 1 where:

- an employee has 2 or more employments with the same or different employers, or
- 2 or more employees by reason of their respective employments share the car

The amount of Class 1A NICs due is calculated by dividing the figures at Step 1 by the appropriate number of employments or employees. Read the example on the next page.

Example

One car shared by 2 employees for the whole tax year.

A car in 2014 to 2015 with a price of £15,000 is available to 2 employees to share for the whole tax year. No fuel is provided for private use. CO₂ emissions are 153g/km.

Step 1

Calculate the car benefit for each car as if each employee had the sole use of it.

Employee A

$$23\% \times £15,000 = £3,450$$

Employee B

$$23\% \times £15,000 = £3,450$$

Step 2

Adjust the amount of Class 1A NICs due for each sharer by dividing the total by the number of sharers involved.

Employee A

$$£3,450 \times 13.8\% = £476.10$$

$$\frac{£476.10}{2} = £238.05$$

2

Employee B

$$£3,450 \times 13.8\% = £476.10$$

$$\frac{£476.10}{2} = £238.05$$

2

Disabled drivers

SS(C)R 2001 Reg 38

74 General

Home to work travel is normally regarded as private mileage, but there are different rules if cars are provided to disabled drivers.

75 Cars provided to disabled drivers

Class 1A NICs are not payable on cars provided to disabled drivers if the following conditions are satisfied:

- 1 the car is provided to assist the disabled driver in travelling between their home and place of work
- 2 no other private use of the car is permitted or takes place

76 Private use of a car provided to a disabled driver

If a disabled driver, or a member of their family or household, makes additional private use of a car, with or without your permission, Class 1A NICs will be due.

77 Converting a car for use by disabled drivers

Accessories which are designed specifically for use by disabled drivers, or added at extra cost to adapt a car for use by disabled drivers, such as a modified steering wheel, are excluded from the price of a car when calculating the car's price.

Accessories which are not specifically designed for disabled drivers but are provided to those disabled drivers who hold a disabled person's badge (blue badge holder) are also excluded.

These further accessories are excluded if:

- the disabled driver held the blue badge at the time the car was first made available, and
- they are provided because they allow the employee to use the car in spite of the disability

Examples such as automatic transmission and electric windows provided to blue badge holders would qualify for this exception, provided they are not standard accessories.

Family or household member

78 Cars provided to a family or household member

The general rule is that if a car is made available to a member of an employee's family or household, it is deemed to be made available by reason of that employee's employment. The family or household member is considered to have received the car because they are connected with the employee, whether or not the same employer employs both.

However, if an employer employs their child and provides a car in their capacity as a parent, Class 1A NICs will not be due. Facts to support such a claim would be that the car had not been treated as a business asset and that no expenses or capital depreciation allowance relating to the car have been allowed as deductions in computing parents' profits for tax purposes.

ITEPA 2003 Section 721(4)(5)

Unless specified otherwise, members of an employee's family or household include the employee's:

- spouse or civil partner
- sons, daughters, and their spouses or civil partners
- parents
- servants
- dependants
- guests

If you are unsure if a person is classed as a family or household member, please phone the Employer Helpline on 0300 200 3200 for advice.

79 Exception to the family member rule

ITEPA 2003 Section 769

If a car is provided to an employee (employee A) by reason of their own employment and that employee is a member of the family or household of another employee (employee B), who is also employed by the same employer, liability for Class 1A NICs will arise in respect of employee B for employee A's car, unless:

- there is already liability for Class 1A NICs for employee A because they are either a director or an employee earning at a rate of £8,500 or more a year including taxable benefits and taxable expenses
- there is no liability for employee A because they are neither a director nor employee earning at a rate of £8,500 or more a year, and a equivalent cars are made available on the same terms, to other employees in similar employments with the same employer, who are not related to the directors and those earning at a rate of £8,500 or more, or
- the provision of an equivalent car is in accordance with the normal commercial practice for a job of that kind

Example

A company with a sole director also employs the director's wife. The wife is not a director and is paid at a rate below £8,500. Both are provided with cars.

There is no liability for the wife because she is neither a director nor an employee earning at a rate of £8,500, including taxable benefits and expenses.

There is a Class 1A NICs liability for both cars for the director. The car benefit should be worked out on each car independently under the normal rules.

80 Car provided by a third party

SSCBA 1992 Section 10ZA

If a car is made available by someone other than the employee's employer for private use by an employee or member of their family or household because of the employee's employment, any Class 1A NICs are payable by the:

- employee's employer, if they have arranged or facilitated the provision of the car for the employee
- third party in all other cases

Read CWG5(2015) 'Class 1A NICs on benefits in kind' for more information.

81 More than one car provided

Working out the car benefit for 2 or more cars provided concurrently

Where 2 or more cars are provided to an employee concurrently, each car must be treated individually. It is easier to use the P11D online to record details.

Example

Two cars are made available to the same employee concurrently throughout the 2014 to 2015 tax year. Car A has a list price of £15,000 and has CO₂ emissions of 185g/km. Car B has a list price of £13,000 and CO₂ emissions of 115g/km. The employee makes a capital contribution of £3,000 and makes payments for private use of £50 per month for Car B.

To work out the benefit of car A

Work out the full car benefit $£15,000 \times 20\% = £4,500$

Car benefit for car A £4,500

To work out the benefit of car B

Step 1

Price of the car £13,000

Step 2

Deduct capital contributions (£3,000)

Figure carried forward from Step 2 £10,000

Step 3

Appropriate percentage 28%

Step 4

Car benefit for the year £2,800

Step 5

Payments for private use £600

Car benefit for car B £2,200

Working out the car benefit for 2 or more cars provided consecutively

Where 2 cars are provided consecutively the benefit chargeable for each car will depend on the length of time each car was unavailable to the employee. They are treated as separate cars with the relevant reductions applied to each car.

82 Cash alternatives to company cars

ITEPA 2003 section 119

Where a car is provided to an employee under a cash alternative scheme, the benefit of the car is taxed under the special rules relating to company cars.

NICs are due on what the employee actually receives.

That is:

- Class 1A NICs, if they have the benefit of the car
- Class 1 NICs, if they take the cash

83 Motoring expenses associated with company cars

SS(C)R 2001, Paragraph 7, Part 8, Schedule 3

No NICs, other than Class 1A NICs on the car benefit, are due on motoring costs you pay in connection with a company car. This does not include mobile phones and chauffeurs.

84 Leased cars

Liability for Class 1A NICs depends on who is involved in leasing the car.

- If a car is leased by the employer and available to the employee or director, Class 1A NICs liability arises.
- If the arrangement for leasing the car is made by the employer, for example, the employer negotiates a deal on behalf of the employee or director, Class 1A NICs liability may arise.
- If the employee or director makes an independent arrangement to lease the car, there is no Class 1A NICs liability, although there may be Class 1 NICs liability if the employer pays the leasing costs.

85 Vans

For guidance about vans read chapter 14 of HMRC (2015) 'Expenses and benefits – A tax guide'.

Part 6 - Records and record keeping

86 Other car records

You will need to keep details of:

- price of the car
- car's date of first registration
- date the car was provided
- type of fuel used (petrol, diesel, road fuel gas and so on)

You will also need to keep details of:

- periods when a car is unavailable
- any payments made to you by employees and directors for use of the car or fuel used on private journeys

87 Incomplete or non-existent records

The action you need to take if your records are incomplete or non-existent will depend on what records are missing.

If you do not know the period of unavailability

You cannot make any reduction to the car benefit for unavailability if you have no record of the period(s) that the car was unavailable.

Withdrawn - do not use

These notes are for guidance only and reflect the position at the time of writing. They do not affect the right of appeal. For subsequent amendments to these notes go to www.hmrc.gov.uk

HMRC Digital Service
September 2015 © Crown copyright 2015
HMRC 12/2015