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Tax benefits of Electric and Low Emission Cars

As we look towards a more sustainable and “greener” energy future, the Government is providing tax incentives for those investing in low emission*, hybrid and electric cars.

Since April 2020, it has become hugely beneficial from a tax perspective to purchase an electric car. A business can now write off the full cost against its profits, therefore reducing its corporation tax liability - this is known as the **First Year Allowance (FYA)**.

In addition, if the car was to be provided to employees, there is no benefit in kind for the tax year 2020/21, although this has increased to 1% in 2021/22 and 2% for 2022/23.

This factsheet further explains the corporation and income tax treatment and considerations of providing low emission cars to employees.

** For the purpose of this factsheet, a low emission car is classed as one where the CO_2 emissions do not exceed 50g/km. In this instance, as long as the car was registered after 6 April 2020, a business and its employees can also enjoy the same tax benefits as described above.*

Corporation Tax Relief for 2020/21

For corporation tax purposes, the purchase cost of cars normally only obtain relief on an annual reducing balance basis depending on the car's CO_2 emissions. These are:

- 18% (where emissions don't exceed 110g/km); **or**
- 6% (where emissions do exceed 110g/km)

However, until April 2021, a low emission car could qualify for 100% relief in the first year (FYA), which applied whether the car was acquired outright or via a hire purchase agreement. To qualify for FYA, the car should be new and unused. Second hand cars only obtain relief at 6% or 18% depending on their CO_2 emissions.

In addition, where the employer installs charging points at work, they can claim 100% relief in the first year for installation and associated costs.

April 2021 onwards

Since April 2021, the above thresholds have reduced from 110g/km to 50g/km. Furthermore, only cars with zero emissions now qualify for the 100% First Year Allowance (FYA) which will last until March 2025.

Benefits in Kind

For income tax purposes, where a car is provided to an employee (with the exception of pool cars), the employee will incur an income tax charge based on the list price of the car (not the price paid by the company).

The benefit in kind charge is broadly calculated as the car's list price, multiplied by the specified percentage which is based on the CO_2 emissions of the car.

In 2019/20, a low emission car would be subject to tax at 16% (or 20% for diesels) of the list price. For 2020/21 onwards, the relevant percentage will be based on the following:

- Whether the car is fully electric or a hybrid*
- Whether the car is registered before or after 6 April 2020

*if it is a hybrid, the rate is further dependant on the electric range of the vehicle

The benefit in kind rates from 2020/21 are shown in the tables below:

Cars first registered before 6 April 2020

CO_2 (g/km)	Electric range (miles)	2020-21 (%)	2021-22 (%)	2022-23 (%)
0	N/A	0	1	2
1-50	>130	2	2	2
1-50	70-129	5	5	5
1-50	40-69	8	8	8
1-50	30-39	12	12	12
1-50	<30	14	14	14

Cars first registered from 6 April 2020

CO_2 (g/km)	Electric range (miles)	2020-21 (%)	2021-22 (%)	2022-23 (%)
0	N/A	0	1	2
1-50	>130	0	1	2
1-50	70-129	3	4	5
1-50	40-69	6	7	8
1-50	30-39	10	11	12
1-50	<30	12	13	14

*If the car is a diesel, as long as it is a diesel plug-in hybrid, the additional 4% diesel supplement does not apply. If it is not a plug-in hybrid, the additional 4% supplement will apply unless it is RDE2 compliant.

Other things to consider

Free charging at work

From 6 April 2018, where the company allows employees to charge their own electric vehicles at the workplace, there is no taxable benefit for the provision of that free electricity, provided that this is made available to all employees generally.

Cost of charging

Where the employer pays for the cost of charging the company-provided electric vehicle, there is no taxable fuel benefit for the driver, as electricity is not classified as a fuel for the car or van benefit regulations. Where the driver of the electric vehicle pays for the electricity personally from their domestic supply, the employer can pay the company car driver at a rate of 4p per mile tax free.

If the car is owned by the employee him or herself personally, the normal tax-free mileage allowance of 45p per mile for the first 10,000 miles (25p thereafter) applies.

Salary Sacrifice Arrangements

Salary sacrifice arrangements enable the employee to forgo a portion of their salary in exchange for a non-cash benefit. This means their gross salary is reduced, so they further benefit from both an income tax and National Insurance (NI) saving.

Low emission cars can continue to benefit from salary sacrifice arrangements, despite the overhaul to the regime in April 2017. Since then, new car salary sacrifice schemes ceased to obtain a tax benefit, although any scheme already in place continued to obtain tax benefits until April 2021. However, these changes only apply to cars with CO_2 emissions in excess of 75 g/km.

As such, on the basis that it is a low emission car, the employee can still waive an element of their salary in exchange for a company car – meaning that the costs of the car will be deducted from their pre-tax and NI salary; far more beneficial for the individual.