

From 6 April 2017, the taxation of company cars for drivers who have chosen to forgo a cash alternative is changing.

The Government's justification to this change is that choosing a company car over a cash benefit should not offer a tax advantage.

Any new company car contracts from 6 April onwards (or contracts which are amended/varied or renewed) will be subject to whichever tax is higher: the employee tax on the cash alternative (which has been forgone) or the benefit in kind (BIK) on the chosen vehicle. (FYI: BIK is the vehicle's P11D list price multiplied by the appropriate company car tax percentage). This will also affect employers similarly, as they will pay whichever National Insurance Contribution (NIC) is higher.

ULEV vehicles with CO₂ emissions of less than 75 grams are exempt from these changes. As are company car drivers who are not offered a cash alternative.

If the employee tax is higher on the cash alternative, the additional tax (i.e. the difference) will be collected through your payroll's annual P11D process. A new box for disclosure of the cash alternative as well as company car BIK will go live in a new 2017/18 P11D form meaning absolutely minimal changes for payroll processes. P46 forms will be refreshed for 2018/19 to support employers' reporting.

Company Car Taxation Example

Based on a Ford Fiesta diesel with a taxable list price of £17,590 and CO₂ emissions of 82 grams per kilometre.

Before 6 April 2017	2017/18	2018/19	2019/20
BIK Rate	20%	22%	25%
Benefit in Kind	£3,518.00	£3,869.80	£4,397.50
Cash Alternative	£4,080.00	£4,080.00	£4,080.00
Basic rate employee tax on BIK	£703.60	£773.96	£879.50
Higher rate employee tax on BIK	£1,407.20	£1,547.92	£1,759.00

From 6 April 2017	2017/18	2018/19	2019/20
BIK Rate	20%	22%	25%
Benefit in Kind	£3,518.00	£3,869.80	£4,397.50
Cash alternative	£4,080.00	£4,080.00	£4,080.00
Higher of: Basic rate employee tax on BIK	£703.60	£773.96	£879.50
Or: Basic rate employee tax on cash alternative	£816.00	£816.00	£816.00
Higher of: Higher rate employee tax on BIK	£1,407.20	£1,547.92	£1,759.00
Or: Higher rate employee tax on cash alternative	£1,632.00	£1,632.00	£1,632.00

Cost change from 6 April 2017	2017/18	2018/19	2019/20
Increase in basic rate employee tax	£112.40	£42.04	£0.00
Increase in higher rate employee tax	£224.80	£84.08	£0.00