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TAX matters
a tax supplement from pkffpm accountants

New Year, New Car?

I own my own business and operate through a limited company. I am considering changing my car and having the company purchase the car for me. What are the UK tax implications of this?

Many businesses provide a company car as part of an overall remuneration package for employees. The private use of a car however is considered to be a Benefit in Kind by HMRC and therefore is taxed as part of the employee's overall employment income.

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The Benefit in Kind (BIK) is a notional figure which the employee is taxed on and which is supposed to represent the effective amount of remuneration the employee has received by being provided with the car. The employee must pay tax on the deemed remuneration and the amount of this will dictate the amount of National Insurance Contributions the employer has to pay (termed Class 1A).

The BIK value is calculated based on a number of factors including the type of fuel used by the car, the carbon dioxide (CO2) emissions and the UK manufacturer's list price for the vehicle. Note it is irrelevant what the company pays for the vehicle as BIK is based on the manufacturers list price. To this BIK percentage HMRC adds 4% based on other emission factors such as the use of diesel fuel. This enables the company to arrive at a cash value and this is returned on a form P11D in July of each tax year. The maximum amount that you could pay under BIK is 37% of the vehicle list price.

With the increasing focus on green technology and the government's attempts to reduce congestion and CO2 emission levels, a generous tax regime exists for employers providing electric and ultra low emission vehicles. These vehicles have a much lesser BIK percentage - for the current tax year the BIK percentage is 16% of manufacturer's list price provided the vehicle emits less than 50 grams of carbon dioxide per kilometre.

The tax benefits of providing ultra low emission vehicles are reducing, however, and the Benefit In Kind cash value upon which the tax charge is based has increased by 78% over the last 3 years whereas the equivalent increase for diesel and petrol cars is approximately 25%.

At the end of the day, however, there is a relatively straightforward calculation that can be done to work out what the net cash effect on you is by having a company car provided and measure this against the amount of income that you would need to earn to arrive at the same net figure. Company fuel benefit however tends to be very expensive and therefore generally speaking you are usually better paying for your own fuel and then charging the company the HMRC approved mileage allowance of 45p per mile for the first 10,000 business miles and 25p per mile thereafter.

As a company owner you will also be interested in the tax implications of the car purchase for the company. The company is able to claim a special form of depreciation called "Capital Allowances" on the car. These Capital Allowances offset a percentage of the car cost against the company profits. For ultra low emission vehicles this is 100% of the cost, falling to 6% of the cost for the highest carbon dioxide emitting vehicles.

For more advice contact Paddy Harty or any of our Tax Team TODAY...

Tax Benefits of Charity Giving

As a salesman for a local company, I have received a substantial bonus for my performance throughout the year and I would like to give some of it to a number of charities. I am a higher rate UK taxpayer. What are the UK tax implications?

Where an individual gives money to a charity, and a Gift Aid declaration is made, the gift is a Gift Aid donation.

The amount donated is treated as if it were made after deduction of income tax at the basic rate in force for the tax year of gift; for example, a donation of £1,000 in tax year 2019-20 is deemed to have been paid after deduction of income tax of £250 (1,000 × (20/80)).

This has two consequences. Firstly, the charity may reclaim the income tax (£250 in the example) from HMRC. Secondly, the individual is assessed for income tax by reference to the grossed-up amount of the donation (£1,250 in the example).

This may benefit the individual in two ways:

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(1) it extends the individual's basic rate and higher rate bands; and (2) it reduces the individual's adjusted net income.

There is no additional benefit for the basic rate taxpayer, and the non-taxpayer should tread carefully. If insufficient tax has been paid to cover the amount reclaimed by the charity, HMRC could seek to recover the lost funds from the donor.

The amount of the grossed-up donation is added to the individual's basic rate and higher rate bands for the year of gift. The main consequence of this is that it reduces the amount of income that is taxed at the higher and additional rates. Returning to our example, and assuming that the donor is a higher rate tax payer, their basic rate band will be increased by £1,250. This means that income of £1,250 will be taxed at 20%, rather than 40%, saving the donor tax of £250.

Therefore, the cost of the donation to the individual falls to £750 (£1,000–£250). The donor has the option of treating the donation as having been made in the previous tax year.

This relief – commonly referred to as higher rate relief – is widely known, understood and claimed: the latest statistics show that higher rate relief costs the government over £500m a year.

There is another consequence of the extension of the basic and higher rate bands that is often overlooked: a person's savings allowance is reduced from £1,000 to £500 where they pay tax at the higher rate, and is removed entirely where they are additional rate taxpayers. The making of a Gift Aid donation could have a significant impact on a person's tax liability where that person has income just over the basic rate or higher rate band. A similar point applies with regard to the transferrable marriage allowance.

Gift Aid does not apply to donations from limited companies.

It is important to be aware of the reliefs available for Gift Aid donations before deciding if, and how, to give to charity. For accountants and tax advisers, it is important to ensure that clients let you know when they have made a Gift Aid donation so that you can ensure they get the right amount of tax relief.

For more advice contact Malachy McLernon or any of our Tax Team TODAY...