

Going Electric – The Tax Benefits

As motorists, our growing demand for reduced costs and greater efficiency coupled with increased choice and performance, has resulted in a massive increase of plug in and hybrid car sales. There has been an increase in demand for ultra-low emission vehicles in the UK, with sales of electric and hybrid cars increasing by 119% in the year to March 2020, BEVS (Pure Battery powered Electric Vehicles) however have seen an even greater rise at 204% year over year. With companies like Mercedes-Benz aiming to launch 20 new plug-in hybrid EQ Power models by the end of 2020 the market is sure to grow.

With this in mind, the government have stepped up their green initiatives, and changes to encourage the use of electric vehicles have been set out in legislation to provide a range of tax cuts which could benefit us all.

Benefits in Kind

The current system using the New European Driving Cycle (NEDC) has been replaced by the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) from 6 April 2020, where most appropriate percentages are reduced by 2 percentage points in 2020/2021 compared to the 2019/20 appropriate percentages for cars.

These changes will impact Benefit in Kind (BIK) taxation going forward for the 2020/2021 tax year and switching to an electric car can bring significant tax benefits. From 6 April 2020, the BIK tax for EVs is reduced to 0% for cars registered after 6 April 2020 with a range of 130+ miles and emission of less than 50 grams per kilometre of CO₂. Essentially a zero-emission vehicle made available to an employee will be completely tax free.

The BIK will increase to 1% and 2% for years 2021/22 and 2022/23 respectively. Buyers should be aware that the EVs purchased on 5 April 2020 or before will still attract a 2% BIK even if the range is beyond 130 miles.

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Related Company Car benefits

HMRC do not consider electricity to be a fuel for car fuel benefit purposes, therefore HMRC introduced a new rate from 1 September 2018 of £0.04p per mile for fully electric company cars. This is the tax-free element that can be paid by employers or claimed by employees when they use their own electric car for work purposes.

Other tax-free benefits of having an electric company car include:

- The cost of charging an electric vehicle at work
- The cost of installing a vehicle charging point at the employee's home
- Employer pays for charge card of £100 per year to allow individuals unlimited access to local authority vehicle charging point.

Employer's National Insurance

From 6 April 2020, as the benefit in kind charge on an electric vehicle will be 0%, the class 1A benefit in kind, which is the cost to the employer of providing benefits in kind to employees, will also be nil.

Capital Allowances

Most cars purchased by companies will be due tax relief on a writing down basis at either the main rate (18%) or the special rate (6%). However, for new and unused cars with CO2 emissions of 50 g/km or less, there is a special enhanced capital allowance of 100% available, second hand cars do not qualify for the first-year allowance. With a main rate writing down allowance, after 8 years the company will still only have relieved 80% of the cost of the vehicle, but with the enhanced capital allowance regime available to low emission cars, the full cost can be relieved in year one.

On the flip side, if the car is disposed of it may result in a high balancing charge due to the electric vehicle pool having a zero balance. It is therefore crucial you seek advice before a purchase or disposal of your electric vehicle.

Please note, that the special enhanced allowance is only available for expenditure on new and unused cars – expenditure on second hand cars does not qualify for the allowance, even if the emissions criteria are met.

VAT – The common misconceptions

There are some commonly held misconceptions about the VAT breaks for businesses buying electric and hybrid cars. There have been numerous cases of car dealers telling customers that businesses can recover the VAT on the purchase of an electric car.

HMRC have no special VAT breaks for electric cars and hybrids. The VAT can only be recovered by a VAT registered business on the purchase of the car if there is no private use at all, and that includes home-to-work journeys. So, you can only reclaim the VAT on the purchase of the car if it is for 100% business use only. If your business leases the car, then you can recover 50% of the VAT on the hire charges and all the VAT on any additional charges such as maintenance or roadside assistance.

The differences if you are self-employed

As with all things in the tax environment, when you are self-employed the rules are slightly different.


The main difference is benefit in kind taxation does not exist for self-employed individuals, instead individuals can claim the costs of motoring as a tax-deductible expense. Be aware though, where a motor vehicle is used in the business and is also used privately, the costs incurred are restricted for private use. When looking at capital allowances, the rates do not change however the allowance you receive is again restricted for the private use element of the vehicle.


Using HMRC's simplified expenses claim will mean less paperwork. Like traditional cars you can claim 45p per business mile for the first 10,000 miles per tax year. However using simplified expenses means that capital allowances and actual running costs cannot be claimed.

Contact Us

For further information about how our specialist healthcare team can assist you, please contact us on either 01253 404404 or 0115 972 1050, or email info@mooreandsmalley.co.uk

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