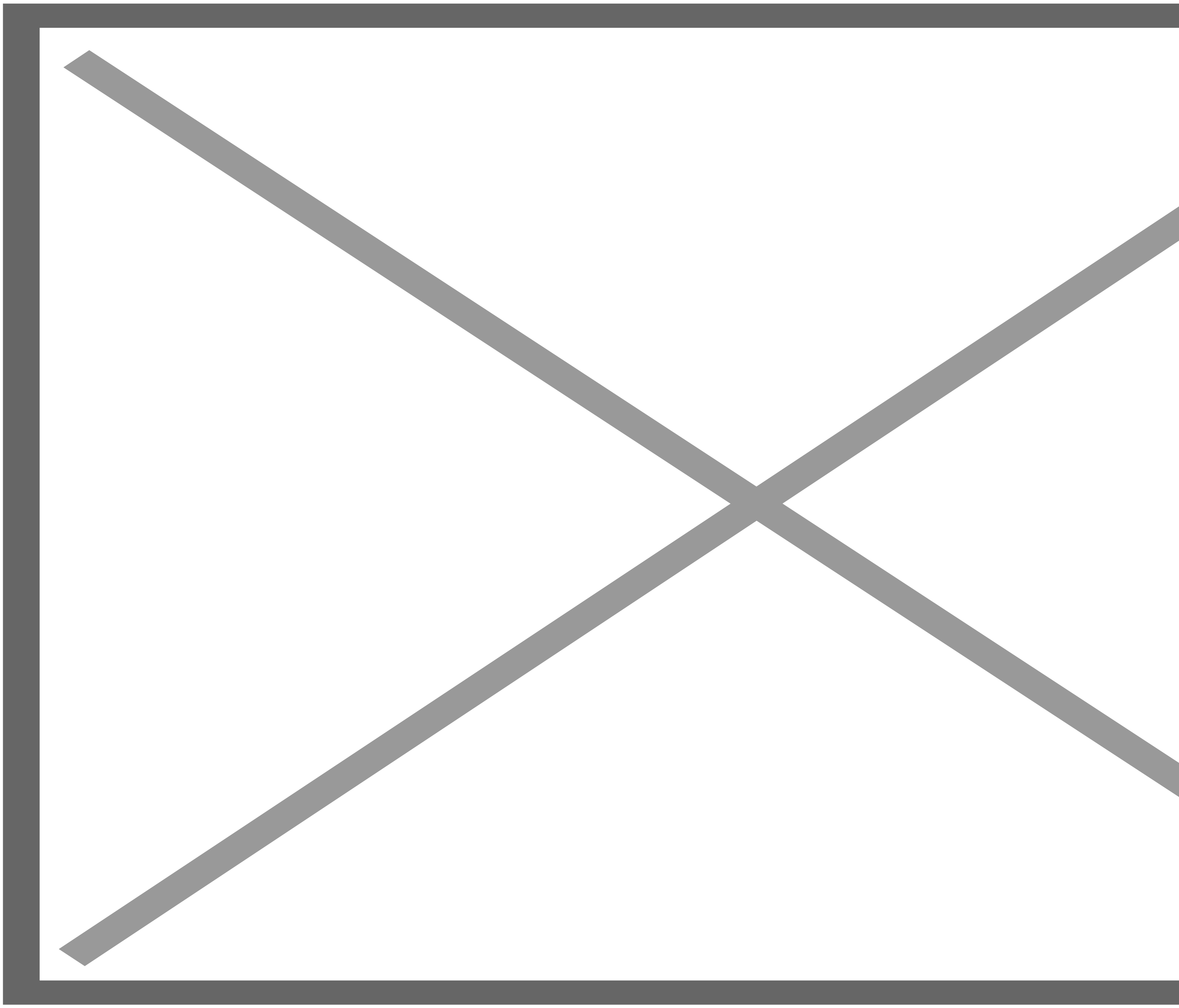
Company Cars – Practical Advice on Reporting 2020/21 & beyond

Employment Tax Tax voice



08 March 2021

David Chandler looks at some practical difficulties for employers when it comes to reporting company cars, especially electric and hybrid vehicles

From 2002 through to around 2015, the taxation regime for company cars was a relatively benign subject, with employees choosing the most CO2 efficient car, which invariably was a diesel, and employers putting the information on P46(car) forms and annually on the form P11D. Simple.

However, over the last few years things seem to have got increasingly confusing for both employees and employers. We now find ourselves in one of the most difficult, and uncertain, times from a company perspective. The move from New European Driving Cycle ("NEDC") to Worldwide Harmonized Light Vehicle Testing Procedure ("WLTP") has caused unintended consequences; the ban on petrol/diesel cars from 2030 means we all need to move to electric vehicles ("EVs") – but when? How long will internal combustion engine ("ICE") cars be available for? What is WLTP and what has it done to the reported CO2 of ICE cars? We now have 2 different tables for CO2 depending on when a car's registration date is and what the V5 (the logbook) states for CO2, and a new table for calculating the tax depending on the electric only range if a car has CO2 between 1g/km and 50g/km.

This article isn't going to consider all of the above (it might need a whole magazine) but, given the approaching year end compliance and new tax year, what it does focus on is how exactly do you report your company cars for 2020/21, what are the issues to think about and how do you deal with 2021/22.

Year end

As with any company provided benefits, company cars need to be reported to HMRC. They can either be voluntarily payrolled (once registered) or reported on the P11D at the end of the tax year (along with the P46(car) reporting which should be followed if not payrolling).

Either way, the information that needs to be obtained and used to calculate the cash equivalent value is still the same. HMRC state that it is the responsibility of the company to report the correct information, not the responsibility of the 3rd party providing the benefit.

Failure to get the data from the correct source could lead to filing incorrect data and potentially to an incorrect company car benefit-in-kind being calculated.

What data is required?

For a large number of company cars, the data required remains fairly easy to obtain: registration date (which is now very important as this decides which CO2 table applies), list price, fuel type, availability, CO2, contributions, etc, etc. The one point to note on fuel types is that the only acceptable entries are currently:

- 'F' for diesel cars that meet Euro standard 6d (known as "RDE2")
- 'D' for all other diesel cars
- 'A' for all other cars

No other letters are allowed and P11Ds will be rejected electronically if they are not one of F, D or A.

Care needs to be taken in respect of newer Diesels in respect of ascertaining whether they are RDE2 compliant or not. It should be noted that Mild Hybrids (MHEV) are assisted by an electric system so are not classified as Diesel cars, hence reported under A. The F & D fuel types should be used only for cars that are solely powered by Diesel (which the MHEV is not). To be clear, for example, all new BMW 520Ds from around the middle on 2020 were actually MHEV, although there was no change in what was written on the boot lid.

What about Plug-in Hybrid Electric Vehicles ("PHEVs")?

At the end of March 2020, according to the Society of Motor Manufacturers ("SMMT"), only 13,662 PHEVs were registered. However, this had risen to 66,877 by the end of December 2020. Based on this a sensible estimate would be that there could be 75,000 to 80,000 PHEV vehicles on the road now. Due to the tax advantages behind them, the majority of those will have been provided as company cars.

The new rules states that if a car has a CO2 emission figure of 1-50g/km you will now need to provide the car's zero emission range ("ZER"). This is the maximum distance in miles that the hybrid car can be driven in electric mode without recharging the battery.

Depending on when your car was registered (pre or post 6 April 2020) will determine whether the ZER will be measured under the NEDC (pre-6 April 2020) or the WLTP (on or after 6 April 2020). Under WLTP, the test is undertaken on an exact vehicle, as items such as wheel size, or optional extras such as a sunroof will impact the range of that car.

The biggest issue to that is where do you find the ZER information? Unfortunately, the ZER is not contained on the V5 document, where all of the other legislative information can be obtained. The only available place is on a document called a Certificate of Conformity ("CoC"). This document is often only produced in hard copy and delivered with the vehicle when it is purchased.

HMRC have very recently advised the following:

- If you are leasing the vehicle, you should get this new data item in the same way you currently receive your Company Car Tax reporting data from the car leasing firm or fleet provider. If this information is not available, you can get the ZER figure via the car's manufacturer.
- If you own the vehicle, the ZER figure can be found on your vehicle's CoC.

Differences between manufacturers and leasing companies means that this information may be very difficult to find. Given there are circa 75,000 PHEVs on the road (most of which are company cars), this is likely to be a problem for many companies. Anecdotally I have seen varied approaches from leasing companies already in this regard, from some having a good handle on the data, to others who are likely to struggle when we reach P11D season. There are some companies who may be able to provide this information by data mining several sources, although this may be at a cost.

In addition, this issue is not going away because the information will be needed next year and the year after and so on. As more PHEVs become available this issue is likely to grow.

If you can get hold of the CoC, the ZER can be found as follows:

- before 6 April 2020 (NEDC) the 'electric range' within section 49.2 on the CoC should be used
- from 6 April 2020 (WLTP) the 'equivalent all-electric range' ("EAER") within section 49.5.2 on the CoC should be used

One final confusing point, if it isn't already, is that on some certificates the ZER may actually be displayed in kilometers, and so the figure will need to be converted into miles and rounded-up to the nearest mile before updating this field on the P11D.

As we all move to EVs in the future simplicity may yet return, but until then we have to ensure our compliance is as robust as it can possibly be.