

Charging towards the future

Employment Tax

Indirect Tax

Large Corporate

Personal tax



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Colin Smith examines the UK tax consequences of electric vehicles

Key Points

What is the issue?

By 2026, electric vehicles are expected to account for a fifth of vehicle sales, up from one in ten in 2020, and the ban on the sale of new petrol and diesel cars has

been moved forward to 2030.

What does it mean for me?

This article explores the incentives and other tax consequences associated with electric vehicles, principally in the context of fleet electrification and in the provision of electric vehicles and electricity charging to employees.

What can I take away?

Aspects of the UK tax regime currently incentivise the adoption of electric vehicles. However, they tend to be more expensive than those powered by internal combustion engines and there are a variety of practical, commercial and legal considerations to be overcome in order to accelerate the adoption of electric vehicles.

Electric vehicles are gaining traction in the UK. By 2026, they're expected to account for a fifth of vehicle sales, up from one in ten in 2020, and the ban on the sale of new petrol and diesel cars has been moved forward to 2030. Much has been written about the consumer side and public charging networks. There has been less focus on the commercial side.

Fleet vehicles account for more than half of UK car sales, with other fleet vehicles such as delivery vans, taxis and buses adding further to the figure. UK businesses have spent £8.2 billion on electric vehicle adoption in the last two years and a further £12 billion is expected in the next two.

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Fleet electrification: acquisition and set up

Grants

Certain low emission vehicles benefit from a government grant of up to £2,500 for cars, £6,000 for large vans, £7,500 for taxis and £16,000 for trucks. Dealers reflect the value of these grants in the list price.

Vehicle excise duty

Vehicle excise duty is levied on every vehicle using public roads in the UK.

First year vehicle excise duty payments are related to carbon dioxide (CO₂) and nitrogen oxide (NO_x) emissions and range from nil to £2,245 per vehicle (see bit.ly/3hIbkif). No initial vehicle excise duty charge applies to 'pure' electric vehicles, being those which produce no CO₂ and NO_x emissions whilst being driven.

Corporation tax: capital allowances

The CO₂ emissions of a car determine the rate of capital allowances available. As such, most cars (non-electric vehicles) are eligible for either 18% writing down allowances (WDAs) or 6% WDAs depending on the car's CO₂ emissions. Whilst the legislation is somewhat circular, 'unused and not second-hand' cars and taxis that are 'electrically propelled' (Capital Allowances Act 2001 s 268B) and purchased from 1 April 2021 will be eligible for a 100% first year allowance.

The March 2021 Budget introduced a super-deduction first year capital allowance of 130% on qualifying plant and machinery investments from 1 April 2021 to 31 March 2023.

The super-deduction does not apply to items which are excluded by virtue of Capital Allowances Act 2001 s 46, which means that it is not available for electric cars. However, commercial electric vehicles such as vans, lorries, buses, taxis and tractors do qualify, as would investment in qualifying infrastructure such as charging points (more details below) and associated engineering works.

Unless there is private use, expenditure on cars with low CO₂ emissions is allocated to the main pool. Therefore, the disposal of such a car will not necessarily give rise to a balancing adjustment.

100% first year allowances are also currently available for expenditure on electric vehicle charging points. Careful consideration should be given to whether electric vehicle charging points may be considered general pool plant and machinery or special rate pool plant and machinery. This will depend on the specific circumstances pertinent to their installation.

VAT

The same VAT rules apply to electric and non-electric vehicles: VAT is charged 20% on both. As a general rule, VAT on cars cannot be recovered. However, subject to the businesses partial exemption status, businesses can reclaim the full amount of VAT paid on commercial vehicles and on cars provided they are not available for private use. Half of the input VAT can be reclaimed on leased cars.

VAT incurred on infrastructure costs such as charging points and associated engineering works can be recovered under the normal rules, provided that the charging points are supplied to the business. If the business pays for the installation of charging points at employees' homes, then the charging point is supplied to the employee and the VAT cannot be recovered.

Workplace Charging Scheme and Electric Vehicle Homecharge Scheme

The Workplace Charging Scheme is a voucher-based scheme to provide support towards the upfront costs of the purchase and installation of electric vehicle charge points. Grants of up to £350 for each socket, up to a maximum of 40 across all sites for each applicant, is available.

The Electric Vehicle Homecharge Scheme is similar, but rather than the customer applying for a voucher, the grant is factored into the price charged by the installer. The level of administration for applicants under the Workplace Charging Scheme and the electric vehicle chargepoint installer under both schemes is relatively heavy. The Office for Zero Emission Vehicles aims to process Electric Vehicle Homecharge Scheme claims from experienced installers within 30 working days.

Ongoing usage

Fuel duties and VAT on fuel

The headline rate of fuel duty on standard petrol, diesel, biodiesel and bioethanol is 57.95p per litre (and has been frozen at that rate since 2011/12).

VAT is applied after fuel duty and so the price of a litre of petrol reflects the pre-tax price plus 57.95p for fuel duty, plus 20% VAT on the pre-tax price and a further 11.59p for VAT at 20% on the fuel duty.

Fuel duty is not charged on electricity used to charge electric vehicles, but it will be subject to the normal climate change levy rules. Where the electricity is supplied to an individual at domestic premises, no climate change levy is charged. However, where it is supplied for business use, such as charge point operations, the climate

change levy is charged at 0.775p per kWh and will form a component of the cost of charging at public charging points. As for fuel duty, VAT is applied after the climate change levy.

Insurance premium tax

Insuring both electric and non-electric vehicles is subject to insurance premium tax at 12% (or 20% in some circumstances).

Vehicle excise duty

Whilst first year vehicle excise duty payments are based on emissions, subsequent payments are not. That is to say, the ongoing vehicle excise duty cost of a petrol or diesel vehicle is the same regardless of the level of CO₂ and NO_x emissions. However, no vehicle excise duty applies to pure electric vehicles which produce no CO₂ and NO_x emissions whilst being driven.

London congestion charge/low emission zones

From 25 October 2021, the 100% discount from London's congestion charge will only apply to pure electric and hydrogen fuel cell vehicles. From 25 December 2025, the cleaner vehicle discount will be discontinued.

Pure electric vehicles are exempt from London's ultra low emission zone charges.

VAT

Businesses can usually reclaim the VAT for all business-related running and maintenance costs, such as repairs or off-street parking, even if they could not reclaim VAT on the vehicle itself.

The VAT position on the supply of electricity for charging electric vehicles has long been unclear. On 25 May 2021, HMRC confirmed its policy (see bit.ly/36gU0eM), stating that:

1. Supplies of electric vehicle charging through charging points in public places are charged at the standard rate of VAT. Unlike electricity provided to domestic customers, there is no exemption or relief that reduces the rate of VAT charged for public charge points.

2. The de minimis provision (for ongoing supplies of electricity less than 1,000 kWh a month to a person's house or building) does not apply to supplies of electric vehicle charging at charging points in public places.
3. Sole proprietors may recover input VAT on the business use proportion of home-based charging, and all input VAT on charging that is done elsewhere.
4. Businesses may not recover VAT charged on supplies of electricity to charge employees' electric vehicles at their home, even where there is business use.
5. Businesses may recover the whole amount of input VAT charged on supplies of electricity to charge employees' electric vehicles at work. However, the business would be liable for output VAT on any element of electricity for private use as a deemed supply. Alternatively, the business could recover input VAT only on the business use element.

Normally, 5% VAT applies to domestic electricity, and this would include supplies to charging points at domestic premises where the electricity supply directly supplies the customer. Commercial arrangements may complicate matters if, for example, the electricity supplier makes a commercial supply of electricity to the charge point operators (VAT at 20%) and the chargepoint operations make a domestic supply of electricity to the consumer (VAT at 5%).

Leases

Many electric vehicle fleets will be financed through leasing. The tax consequences of leasing are beyond the scope of this article.

Employees

An increasing number of businesses are providing electric vehicles, or the charging thereof, as part of their employee benefit packages; it can be a tax efficient form of remuneration.

Benefit in kind charge: vehicle

The benefit in kind value for cars provided to employees is calculated by applying a rate to the value of the car. The rate depends on the car's CO₂ emissions: the normal maximum is 37%. The rates for pure electric vehicles are 1% for 2021/22, and 2% subsequently. The rates for hybrid electric cars are up to 14%.

The normal van benefit charge is £3,500 per year. From 6 April 2021, the van benefit charge is nil for all company vans that emit no carbon emissions.

Benefit in kind charge: charging

HMRC currently considers that electricity is not a fuel for car fuel benefit purposes. Unfortunately, it is not that simple. The benefit in kind consequences associated with charging electric cars varies significantly depending on factors including whether the car is a company car made available for private use or an employee's car used for business purposes and whether the charging occurs at work or at home (see table above).

Due to the significantly different consequences between fully electric and hybrid electric vehicles and the various conditions attached, advice should be sought when drafting and implementing a policy.

Salary sacrifice

A salary sacrifice arrangement is an agreement to reduce an employee's entitlement to cash pay in return for a non-cash benefit. The opportunities to use tax efficient salary sacrifice arrangements have reduced significantly in recent years.

However, salary sacrifice arrangements involving the provision of hybrid and pure electric cars can still be tax efficient since the taxable income is based on the benefit in kind rate – which can be as low as 1% (rising to 2%) – rather than the cash income foregone.

HMRC no longer provides advance approval of salary sacrifice schemes and so it is recommended that businesses obtain external validation of a scheme before it is implemented.

Reimbursement of fuel costs for company cars

Most businesses reimburse employees for fuel use for business travel in their company cars, or require employees to repay for the cost of fuel used for private travel. Generally, these payments are calculated by applying certain rates to the number of miles travelled.

If the mileage rate paid is no higher than HMRC's advisory fuel rates, there will be no taxable profit and no Class 1A NICs to pay. Higher fuel rates can be paid without income tax or NI consequences if it can be shown that the cost of business travel is

higher than the advisory rates.

Mileage rates vary from 11p to 19p per mile for petrol vehicles, and from 9p to 13p for diesel vehicles. These rates also apply to hybrid petrol and hybrid diesel vehicles. The mileage rate for a pure electric car is 4p per mile.

Mileage allowance payments

Businesses can pay employees an approved amount of mileage allowance payments each year for using their own vehicle for business journeys without having to report them to HMRC. The same rates apply to electric and non-electric vehicles: 45p for the first 10,000 business miles in a tax year; then 25p for each subsequent mile for income tax purposes and 45p for all business miles for NI purposes.

The future

Aspects of the UK tax regime currently incentivise the adoption of electric vehicles. However, electric vehicles tend to be more expensive than those powered by internal combustion engines and there are a variety of practical, commercial and legal considerations to be overcome in order to accelerate the adoption of electric vehicles.

Fuel duties and vehicle excise duties raise about £35 billion annually. If electric vehicles continue to be exempt from those duties, an increase in their use is likely to reduce the government's tax take. If future governments intend to maintain current transport tax revenues, it is likely that alternative taxing mechanisms will be adopted.

Image

CARPENTER CRISIS: PROBLEM WITH RECHARGES

John is a carpenter, earning £80,000 each year, and so he is below the VAT registration threshold. His son Peter is also a carpenter with his own business with annual sales of £50,000. John can get better discount terms with local wood suppliers than Peter, so buys all the wood himself and recharges it to Peter at cost price. He treats the recharges as 'negative purchases' in his accounts rather than 'positive sales' but HMRC would see this differently – if the annual recharges to Peter exceed £5,000, John will need to register for VAT on a compulsory basis.

Note: It would make more sense for Peter to receive the better discount terms because he can charge his father up to £35,000 each year without creating a VAT problem.