RICHARD ANTHONY
Accountants and Tax Advisors

A Guide to Company Cars

Want to run cars and vans through our business? There are a few personal tax issues to consider. That's why we've created this guide to help you decide the best option for you.

Company Car Tax

Cars provided by your employer and available for personal use are viewed as a taxable benefit. HM Revenue and Customs (HMRC) attaches a monetary value to the private use of the vehicle and collects tax on it – this is known as Benefit in Kind Tax (BIK).

There are two separate BIK tables, one for a car registered after 6 April 2020, and one for a vehicle registered before that date.

Calculation of the tax is based on CO2 emissions of the specific car provided combined with other factors, these being:

- The list price (P11D value) of the car before non-taxable items (e.g. road tax) and after optional extras.
- The tax rate you are in (20, 40 or 45 per cent) based on your annual income.
- The type of fuel the car runs on.

The BIK rate of electric vehicles has risen from two to three per cent in the 2025/26 year, increasing by one per cent annually until it reaches five per cent in 2027/28. It then increases by two per cent annually, reaching nine per cent in 2029/20.

The easiest way to work out the tax you pay is by using **HMRC's own car tax calculator**, which will ask for all of the previous details, plus any tax-reducing facts like your contribution to the initial cost of the vehicle and the percentage of use.

Here is a calculation example in three steps:

1. Determine the car's list price (P11D value).
2. Multiply this value by the company car tax rate (based on its CO2 emissions is the **BIK value**).
3. Multiply the BIK value by your **personal tax rate** of either 20, 40 or 45 per cent to get the amount payable.

Petrol and Diesel Vehicles

The tax bill on diesel cars will typically be more expensive (there is a four per cent surcharge for diesel vehicles not meeting the RDE2 standard).

Because of their lower CO2 emissions, hybrid cars can be a great alternative. Hybrid vehicles that emit less than 50g/km will fall into a lower BIK rate band (currently three per cent).

Personal Tax on a Company Van Benefit

If a vehicle classes as a van, the benefit is taxed differently. Instead of looking at the list price and CO2 emissions, there is a flat rate figure that HMRC provide. For 2025/26, this is £4,020.

There is also the option of a zero-emission van. This is an even smaller taxable benefit in kind compared to a standard company van. It is important to note that Double Cab Pickups with a payload of one tonne or more will be treated as cars, not vans, for tax purposes.

Fuel

If your employer provides fuel for your company vehicle, this will give rise to a separate taxable Benefit in Kind.

If fuel is provided for a company car, you take an apportionment of the flat rate figure, depending on your vehicle's CO2 emissions.

If fuel is provided for a company van, a standard flat rate figure is used (£769 for 2025/26), as the van benefit itself.

Mileage Rates

If you use a vehicle for a genuine business trip (using either a company car or a private car), your employer can reimburse you by using HMRC's flat rates.

According to HMRC, trips are seen as business-related when the work can't be done unless the trip is made, and the employee needs to be somewhere other than the usual workplace to carry out the job. There are different rates depending on whether you use a company vehicle or a private vehicle.

It is worth noting, if your employer reimburses you below these amounts, you can make a claim for additional tax relief on the difference. If your employer reimburses you above these amounts, the difference will be subject to income tax in full.

Leasing or buying a company vehicle?

For an employer, whether the vehicle is leased or purchased may make a substantial difference to the amount of tax relief obtained. In either situation the BIK position for your employees is not affected.

Purchase

If you purchased a vehicle, you will be able to claim Capital Allowances on it. This is a set percentage that can be offset against your profit and is dependent upon the vehicle's CO2 emissions.

Hire Purchase (HP)

Under a hire purchase, legal ownership of the vehicle passes to the company at the date the contract is signed. You will then simply pay for the asset over a period of time, normally on a monthly basis.

Monthly HP repayments will contain both an interest and a capital repayment element.

The capital element is not an allowable deduction against business profits, whereas the interest element is.

You will however, be able to claim capital allowances on the cost of the vehicle, similar to if you purchased the vehicle outright.

Lease

There are two types of leases, an operating lease and a finance lease.

An operating lease is where the business simply pays a rental payment to the legal owner of the asset. All of the expenses incurred can be offset against business profits.

A finance lease is where the business is required to treat the lease in the same way had it bought the vehicle by way of a loan. The business will therefore depreciate the asset over its normal life, and will charge depreciation and interest payments against business profits. This is one of the only times a business will get a tax deduction for depreciation.

In either situation, the asset is being borrowed from someone else, so no capital allowances can be claimed.

Where the vehicle in question has CO2 emissions of 50g or more, only 85 per cent of the lease costs will be allowable. If your business is VAT registered, you can also reclaim 50 per cent of the VAT relating to the lease of company vehicles.

Electric vehicles

With the sale of new petrol and diesel cars set to end by 2030, increasing fuel costs and the ongoing threat of climate change, it is little wonder that more people than ever are considering changing to an electric car.

But, before you take the leap, it's important to make sure you are clear about the tax implications of an electric car purchase, hire-purchase, PCP arrangement or lease.

Can I claim Capital Allowances on the purchase of an electric car?

100 per cent First Year Allowances (FYA) can currently be claimed on the purchase of an electric car.

That means you can deduct the cost of the car from your profits before tax in the accounting period during which you purchase the vehicle. You do receive capital allowances on petrol and diesel vehicles but these are received over a number of years.

If you also use the car for personal journeys, you will only be able to claim in proportion to the time you use the car for business journeys.

That means if you use the car for personal journeys 10 per cent of the time, you will only be able to claim 90 per cent of the cost of the car in Capital Allowances. This is only the case for sole traders and partner-ships, with the benefit in kind being charged instead for a company.

Because you are likely to be able to reduce your pre-tax profit significantly, you may want to consider in which tax year you make the purchase. The benefits may be greater in a year with higher income.

You can claim Capital Allowances when buying outright or with a hire-purchase agreement.

Should you subsequently sell the car, however, there will be a tax charge on the amount received.

Can I reclaim VAT on the purchase of an electric car?

As a general rule, no. However, if you are VAT registered and the vehicle is used exclusively for business you can. This is therefore only likely to apply in the case of pool cars or taxis. This is the same as the rule for petrol and diesel cars.

What about Personal Contract Purchase (PCP)?

PCP finance deals are a very popular way of purchasing a vehicle nowadays, often consisting of a modest initial deposit, followed by a series of comparatively low monthly payments. At the end of the term, you will generally have the option either to trade the vehicle in for a new one on a new contract or to make a 'balloon' payment to own the vehicle outright.

However, crucially, PCP arrangements will usually be considered to be a finance lease and so they would not normally qualify for first-year Capital Allowances. As a result, there can be significant tax advantages to opting for a hire-purchase agreement, rather than a PCP arrangement when buying an electric car for your business.

That said, there are some limited circumstances where the detail of a PCP agreement means it would be eligible for first-year Capital Allowances. This can be the case where the balloon payment element is below the expected future market value of the vehicle. You should seek tax advice if you are considering this option with a view to claiming Capital Allowances.

What if I lease an electric car?

If you lease an electric car, you can deduct that cost from your taxable profits. A company can deduct the whole cost of the lease with a sole trader or partnership being able to deduct the cost in proportion to your business use.

> *While this route allows you to spread the cost, you lose the significant tax benefit that comes with first-year Capital Allowances when purchasing an electric car.*

Nevertheless, there are benefits to leasing, rather than purchasing, an electric car. Current battery technology means that performance does degrade over only a few years and so batteries – a significant cost of the overall vehicle – will need replacing reasonably quickly. By leasing, you avoid this issue.

Can I reclaim VAT on the lease of an electric car?

There is a 50 per cent block on input VAT recovery if the car is available for private use whether it is electric or not. If not available for private use and purely for business 100 per cent of the VAT may be claimed. For VAT purposes the rules are no different whether the car is electric or not.

What mileage claims can I make for electric car journeys?

If the company pay the lease or own the vehicle and you charge your car at home, you can claim 7p per mile for business journeys. Commuting to your permanent workplace is not considered a business journey.

However, if you pay for the lease or own the electric car personally then you would still claim the relevant mileage rate of 45p/25p irrespective of the fact it's electric.

How about charging points?

You can claim back the VAT element of a charging point if you are registered for VAT.

For sole traders or partnerships, you can also deduct the cost of a charging point in proportion to your business use. For company cars, the company can pay for a charging point to be installed at the car users home with no benefit in kind arising.

If you have a business premises, the Government offers a scheme to help with the cost of the installation of electric car chargers at those premises – please click here for more information.

Do I have to pay vehicle tax (road tax)?

As of April 2025, electric vehicles will be charged vehicle excise duty (VED) from April 2025.

However, this should not be confused with the BIK rate, which increased to three per cent in 2025/26. This will increase further for electric vehicles by one per cent in 2026/27 and then again by another one per cent in 2027/28. It then increases by two per cent annually, reaching nine per cent in 2029/20.

Electric cars are also exempt from the congestion charge in London and emission zones in many major cities. Company cars which have to travel in and out of cities all the time will hugely benefit from this additional saving.

Other benefits when using electric vehicles

- **Electric charge points and charging costs** – Any business that installs charging points for electric vehicles between now and 5 April 2026 can claim a 100 per cent first-year allowance for these costs.
- **Electric vans** – The taxable benefit for having the private use of a zero-emission van were reduced to nil from April 2021. The previous year, electric vans were taxed at 80 per cent of the benefit for a normal van.
- **Salary sacrifice** – Where an electric car is provided under salary sacrifice, the optional remuneration rules do not apply.

Get in touch

Please speak to our tax advisers for help and guidance.

Ground Floor Cooper House, 316 Regents Park Road, London, N3 2JX

T: 020 8349 0353 **E:** info@richard-anthony.co.uk

richard-anthony.co.uk

For information of users: This material is published for the information of clients. It provides only an overview of the regulations in force at the time of publication (April 2025), and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material can be accepted by the authors or the firm.