

# Press Release



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## *Tax inefficiency of company car upgrading highlighted by CBS*

Results of a recent survey conducted by ECO specialists Car Benefits Solutions have highlighted that more and more company car drivers are electing to trade up when choosing their next company car.

This trend correlates with the fall in new car prices experienced over recent years which as a result has led to many employers reducing the list price bands of their entitlement policies in order to provide employees with an equal level of benefit.

This policy is seen to be one of the primary factors driving the desire to trade up, as employees can move to a higher specification car without a significant increase in list price compared to that of their previous company car.

When choosing their company car, many employees are often unaware exactly how much the option of trading up will cost them, particularly as employers often require a contribution from these individuals.

If we assume an employee is entitled to a company car with a £20,000 list price and an emissions rating of 155g/km but elects to trade up to an alternative vehicle with a taxable value of £21,800 and CO<sub>2</sub> emissions of 205g/km. The annual costs borne by the employee for either car are as follows:

P11D Value	£20,000	£21,800
Scale Charge %	x 15%	x 25%
Employee Contribution pa	(£0)	(£600)
Marginal Rate of Tax	x 40%	x 40%
Scale Charge Tax pa	£1,200	£1,940
Employee Contribution	£0	£600
Total Employee Cost pa	£1,200	£2,540

\* The total cost of the trade up is collect over the company car's 3 year life.

In this example, the employees own costs have more than doubled although (all other things remaining equal) the difference in whole life costs between the two vehicles may only be in the region of 10% - 15%.

Paul Taylor, Principal Consultant at CBS says, "It is clear from this example that the employee suffers a double hit for the privilege of trading up. Not only must they pay a trade up contribution to their employer but they pay additional Scale Charge Tax on the higher specification car. This indeed highlights the inefficiency of upgrading in the company car arena".

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Structured Car Ownership Schemes present an alternative method of providing the car benefit and can offer the employees a more affordable way of trading up in terms of their vehicle choice. Such schemes may also reduce the cost to the employer in the instance of an employee trading up.

Under such an arrangement the employee is no longer assessable for Scale Charge Tax under s114 Income Tax (Earnings and Pensions) Act 2003 and consequently they do not suffer increased tax penalties should they wish to trade up.

Traditionally an employee's contribution is set with reference to the Scale Charge Tax they would have paid had they selected their benchmark car as a company car plus or minus the difference in whole life costs of the vehicle selected versus the benchmark entitlement for other grades under the car policy.

Applying this logic to the aforementioned example, the costs to the employee would be significantly different.

The annual cost to the employee of electing to trade up to the higher specification car would be £1,800 (£1,200 + £600) compared to £2,540 had it been a company car. In this example this represents a saving to the employee of £740 per annum. The reason for such a large discrepancy is that fact that Company Car Tax does not relate to whole life costs, the true cost of running a car, whilst employee contributions in a Car Ownership Scheme do.

The employer also benefits under the Car Ownership Scheme as their primary costs are fixed to that of the benchmark car, whereas had it been a company car they would have suffered increased Class 1A National Insurance Contributions and potentially greater Corporation Tax restrictions.

Car Ownership Schemes also provide an efficient mechanism to delivery to employees trade down rebates via reduced employee contributions which are neither subject to Income Tax or National Insurance Contributions.

“These efficiencies afforded to both employee and employer alike when trading up or down are yet another often unseen benefit of Car Ownership Schemes. The ability of employers to reduce an employee's tax burden allows them to send a powerful message to their drivers that they are striving not only to protect but potentially increase their benefits package in both innovative, cost efficient and flexible ways”, concludes Taylor.



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