

**company cars:**  
a guide  
for drivers



Department  
for Transport

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## Introduction

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A company car is potentially very cost effective for both employers and employees. But if you choose a car without understanding the cost implications, it could be an expensive decision.

Energy Saving Trust has published this guide to help you choose the right company car and avoid unexpected costs. Making the right choice could save you thousands of pounds.

The cost of running a company car may include:

- ✔ Company car tax
- ✔ Private fuel expense
- ✔ Tax on employer-provided private fuel
- ✔ Contributions required by your employer

To illustrate how expensive a company car can be, a 40% rate tax payer driving 8,000 private miles per year in a typical mid-size hatchback will pay around £10,000 in fuel and tax costs over four years.

The important points to remember:

1. Running a company car is a significant financial commitment, so it is worth understanding how to minimise your costs.
2. Company car tax (CCT) is based on the vehicle's carbon dioxide (CO<sub>2</sub>) emissions. The tax incurred on a car with emissions of 149 grams CO<sub>2</sub> per kilometre (g/km) is 50% higher than the tax on a car with emissions of 109g/km.
3. Higher carbon dioxide emissions mean higher fuel consumption, so choosing a car with a lower g/km emissions figure will reduce the cost of your personal journeys.
4. Drivers whose employer pays for their private fuel often pay more in tax on the 'free' fuel than the value of the fuel itself. As a rule of thumb, if you drive fewer than 12,000 private miles per year, you may well be worse off than if you paid for your own fuel.

## The basics

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**When is a car a company car?** For tax purposes, when an employer makes a vehicle available to an employee (or their family and household) for private use, it is classed as a company car. Cars that are provided for business use only, with private use specifically prohibited, are exempt from company car tax.

### Calculating tax

Understanding how company car tax varies for different vehicles is crucial to help you make a cost-effective choice. Company cars, like all employee benefits in kind, are taxed on a cash equivalent basis. The cash equivalent is usually the cost of the benefit, excluding any contributions you pay to your employer. Put simply, you are taxed on the value of the benefit to you.

For example, if your employer provides private medical insurance worth £200, you pay tax on that value. So, if you're a 20% rate tax payer, the cost is £40. That's relatively easy to calculate.

For company cars the cash equivalent is a nominal value calculated by the following formula:

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$$\text{(A) P11d value of car} \times \text{(B) Appropriate percentage}$$

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The P11d value (A) comprises the vehicle's list price, including any optional extras and VAT, plus any delivery charges. It does not include vehicle excise duty and first registration fees.

The appropriate percentage (B) is determined by the car's CO<sub>2</sub> emissions and currently ranges from 0% to 35%. The higher the CO<sub>2</sub> emissions, the higher the percentage. Choosing a more efficient car can reduce your tax liability.

The Government usually confirms the percentages for the next few years during the annual Chancellor's Budget. For any given level of emissions, the appropriate percentage generally increases each year.



For example, a car with a petrol engine and CO<sub>2</sub> emissions of 109g/km has an appropriate percentage of 13% in the 2013/14 tax year, rising to 14% in 2014/15, and 16% in 2015/16. The cash equivalent formula means that a driver receiving a new company car in 2013/14 will pay more tax in the second and third years. It is important to understand how much your new car will cost you in each year that you will be driving it, to avoid being caught out by higher taxes.

You can check your current vehicle's CO<sub>2</sub> emissions on your P11D, prepared each year by your employer. It can also be found via the DVLA's free online service; click 'Vehicle Enquiry' at the [DVLA's website](#).

If you are choosing a new company car, your employer should provide you with information on the CO<sub>2</sub> emissions of the vehicles available to you.

## Examples

To give you a better idea of what this means, we've created some examples in the table below. They illustrate how important it is to consider CO<sub>2</sub> emissions when choosing a car, and show how tax will increase over three years.

The three cars have similar list prices but different tax costs because of their CO<sub>2</sub> emissions. Additionally, because higher emissions equate to more fuel consumed, the cost of private mileage increases too.

**Tax charges 2013-2016<sup>1</sup>**

Figure 1

Price list	CO <sub>2</sub> g/km	2013/14		2014/15		2015/16	
		Appropriate percentage	Annual tax at 40%	Appropriate percentage	Annual tax at 40%	Appropriate percentage	Annual tax at 40%
<b>BMW 1 SERIES 5 DOOR 116dES</b>							
£20,525	109	16	£1,314	17	£1,396	19	£1,560
<b>VAUXHALL INSIGNIA HATCH 2.0 CDTi ES 130 PS 6-spd MANUAL</b>							
£19,570	124	19	£1,487	20	£1,566	22	£1,722
<b>PEUGEOT 308 SW 2.0 Hdi ACTIVE 150</b>							
£21,000	139	22	£1,848	23	£1,932	25	£2,100

<sup>1</sup> Examples vehicle list prices and carbon dioxide emissions throughout the guide were taken from [www.comcar.co.uk](http://www.comcar.co.uk)

## Beyond the basics

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### Employee contributions

In some organisations, drivers make a contribution towards the cost of their company car and their tax liability is reduced as a result. There are two types of contribution:

1. A one-off capital contribution, typically paid by the employee to have a more expensive car than the organisation is offering. In this case, the contribution is subtracted from the list price and you are taxed on this lower value.

For example, suppose you take a car with a list price of £18,000 and an appropriate percentage of 15%, and you contribute £3,000 towards the vehicle. Without the contribution, the annual tax liability of a lower rate tax payer would be  $£18,000 \times 15\% \times 20\% = £540$ . However, after the contribution is included, your tax liability will be  $£15,000 \times 15\% \times 20\% = £450$ .

2. Where monthly or annual payments are made towards private use, your contribution is multiplied by your income tax rate, and the result is deducted from the company car tax you would otherwise pay.

For example, suppose you are required by your employer to pay £900 a year towards the cost of a car with a list price of £18,000 and an appropriate percentage of 15%. For a lower rate tax payer, 20% of £900 is deducted from your company car tax, i.e.  $(£18,000 \times 15\% \times 20\%) - (£900 \times 20\%) = £540 - £180$ . This means you would pay £360 a year.

### Disability exemptions

Two concessions ensure that disabled drivers are not financially disadvantaged. Firstly, the list price for tax purposes does not include accessories that allow a disabled driver to use the car. Secondly, if a disabled driver needs to drive an automatic variant with higher CO<sub>2</sub> emissions than its manual equivalent, the lower CO<sub>2</sub> emissions may be used to determine the appropriate percentage.

## Private fuel costs

### MPG rating

#### Estimated fuel cost per 1,000 miles

Figure 2

Official MPG (NEDC)	Pence per litre at pump			
	£1.30	£1.40	£1.50	£1.60
30	£227	£224	£261	£279
40	£170	£183	£196	£209
50	£136	£146	£157	£167
60	£113	£122	£131	£139
70	£97	£105	£112	£119

While some drivers are unfamiliar with the relationship between CO<sub>2</sub> emissions and fuel cost, understanding this connection will help you make a financially informed choice. CO<sub>2</sub> emissions are a direct result of consuming fuel. The higher the car's official CO<sub>2</sub> emissions, the more fuel is consumed – i.e. the vehicle's miles per gallon (MPG) performance is worse. Put simply, higher official CO<sub>2</sub> emissions equate to higher private fuel costs.

#### Estimated private fuel cost for 8,000 miles

Figure 3

CO <sub>2</sub> g/km	Combined MPG (NEDC)	Fuel cost pence per mile	Fuel cost for 8,000 miles
<b>BMW 1 SERIES 5 DOOR 116dES</b>			
109	68.9	10.6	£849
<b>VAUXHALL INSIGNIA HATCH 2.0 CDTi ES 130 PS 6-spd MANUAL</b>			
124	60.1	12.2	£974
<b>PEUGEOT 308 SW 2.0 HdI ACTIVE 150</b>			
139	53.3	13.7	£1,098

Figure 2 allows you to estimate fuel costs per 1,000 miles based on different miles per gallon and costs of fuel. We have assumed that vehicles use 15% more fuel than the official (NEDC) consumption figure would suggest. However, the actual fuel consumption will depend on driving style. The financial consequences of choosing a more efficient vehicle can be clearly seen.

Returning to our three-car example, the annual fuel costs for a driver travelling 8,000 private miles are shown in Figure 3.

The Peugeot 308 driver will pay approximately £250 more for their personal fuel during 2013/14 than the BMW 1 Series driver. Furthermore, they can expect to receive a £534 higher tax bill for their less efficient vehicle.

## Employer-provided private fuel

Sometimes referred to as free private fuel, nothing could be further from the truth. For many company car drivers this is not a benefit at all, and may cost you more in tax than the value of the fuel used.

When a company car driver is provided with fuel for their private journeys, it is classified as a benefit in kind. Instead of being taxed on the amount of fuel used, a nominal value, set by HMRC, is used to determine the cash equivalent of the benefit. Since the 2013 Budget, the fixed charge has been £21,100. This value is multiplied by the appropriate percentage determined by the car's CO<sub>2</sub> rating (the same percentage used to calculate company car tax).

The fuel benefit tax applies to a company car driver when in receipt of any private fuel. It doesn't matter how much fuel you use; even just one litre exposes you to the full tax.

Figure 4 shows how the tax affects the Vauxhall Insignia's driver. The tax charge of £1,604 ( $£21,100 \times 19\% \times 40\%$ ) is fixed. At annual private mileages below 13,240 this driver is worse off receiving private fuel. If you think this benefit is costing you more money than it is worth, speak to your fleet manager about opting out of the scheme.

Bear in mind that your employer pays National Insurance contributions when they provide you with free private fuel, so by opting out, you will save the organisation money as well.

Finally, don't confuse the use of a company fuel card with employer-provided private fuel. A fuel card is simply a way to pay for fuel, much like a corporate credit card. As long as you pay for all of your private fuel by reimbursing your employer, you will not be taxed for personal fuel used.

**Vauxhall Insignia Hatch 2.0 CDTi ES  
130 PS 6-spd Manual. CO<sub>2</sub> 124 g/km,  
official fuel consumption 60.1 MPG,  
diesel £1.39 per litre**

Figure 4

Tax cost 2013/14				
Private miles	Fixed charge	Annual Tax at 40%	Value of fuel received	Net benefit (cost) to employee
5,000	£21,100	£1,604	£606	(£998)
10,000	£21,100	£1,604	£1,211	(£392)
12,500	£21,100	£1,604	£1,514	(£89)
15,000	£21,100	£1,604	£1,817	£213
20,000	£21,100	£1,604	£2,423	£819



## Vehicle specification

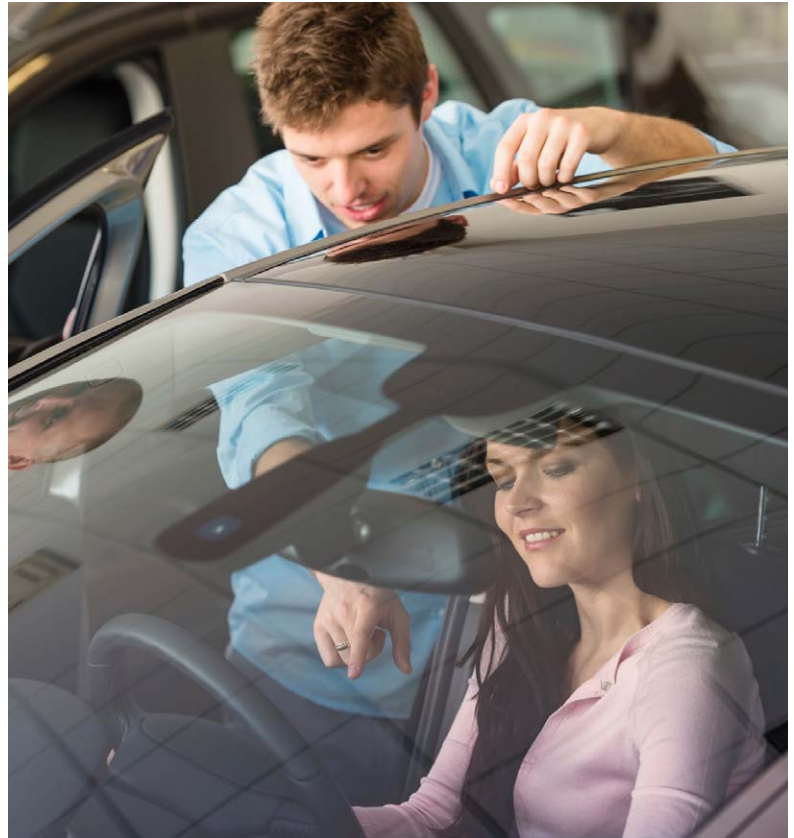
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### Fuel type

Plug-in vehicles are starting to appear on some organisations' choice lists. Pure-EV and hybrid cars are typically suitable for primarily urban driving, whereas a very efficient diesel engine is likely to be better for mostly motorway use. It is important to consider the type of driving you will cover, and if you are considering a plug-in vehicle, where you will recharge it. For more information, there is a short video [available on our website](#) which provides an introduction to plug-in vehicles.

However, for most drivers, the next step is to decide whether to opt for a petrol or diesel model. This is a complex and ever-changing debate. Diesel cars currently attract more company car tax than petrol models with the same CO<sub>2</sub> emissions and usually have higher list prices. Diesel is also more expensive per litre at the pump.

Conversely, in recent years diesel cars have returned better fuel consumption than petrol models, so the conventional wisdom is that, unless you are covering relatively low mileages, diesel is the best option. However, recent improvements in petrol engine technology are challenging this belief, and today the mileage threshold at which diesel becomes cost effective is higher. Your fleet manager can help you decide which is most suitable for your needs.



### Safety

[Euro NCAP](#) provides drivers with an independent assessment of the safety performance of most cars sold in Europe. If you are considering choosing a smaller, more fuel efficient car, you can therefore allay any fears that the savings come at the expense of safety.

## Conclusion and action plan

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There are four key messages to take away from this guide:

- ✔ Understand how your choice influences how much a company car will cost you.
- ✔ Lower CO<sub>2</sub> emissions will reduce your costs, both in company car tax and in the cost of your personal journeys.
- ✔ Employer-provided private fuel is often not cost-effective as it is heavily taxed.
- ✔ Consider which fuel type is right for you, and take the vehicle's safety rating into account when making your selection.

## Action plan

1. Establish your current costs. Find your car's CO<sub>2</sub> emissions from your P11D statement or online, use the websites listed on the next page to calculate your tax, then estimate your private fuel costs.
2. Calculate the value of any employer-provided private fuel and compare this with the cost in fuel benefit tax to decide whether it would be cost-effective to opt out of the scheme.
3. When selecting your next car, check the CO<sub>2</sub> ratings of the available vehicles. There are now several hundred vehicles with emissions at or below 99g/km, including models from most mainstream manufacturers. You can choose a great car and still save money.
4. Establish your new car costs in terms of tax and personal fuel. To calculate your costs you will need the following information: CO<sub>2</sub> g/km, P11d value, your tax rate, annual private mileage, MPG estimate, fuel type and fuel pump price. Remember that costs may increase over three or four years as benefit-in-kind appropriate percentages change. You can [download a copy](#) of these percentages from the Energy Saving Trust website.
5. Financial considerations aside, think about whether the vehicle is right for what you, your job and your family needs. Think of the environment, work out the costs – but enjoy it too!

## Next steps: resources

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These free online calculators can help you to assess some or all of the costs (although their accuracy cannot be verified by the Energy Saving Trust).

[cccfcaculator.hmrc.gov.uk](http://cccfcaculator.hmrc.gov.uk) – calculate company car tax and any private fuel tax liability

[comcar.co.uk](http://comcar.co.uk) – select a car and calculate company car tax and any private fuel tax liability

[fuel-economy.co.uk/calc.shtml](http://fuel-economy.co.uk/calc.shtml) – input your MPG and calculate the amount of fuel used and its cost for any given distance



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