



DRIVING TAX SAVINGS

How to make company cars less taxing for your clients

CO₂ emissions have become a critical part of the choice process when selecting vehicles for use on business.

Not only do they have a direct impact on the amount of tax paid by drivers, there is also a cost to the employer beyond the basic expense of running the car, with National Insurance contributions linked to car CO₂ emissions.

CO₂ thresholds are also imposed for capital allowances, offering incentives for businesses that purchase vehicles outright and opt for cars with lower emissions.

The number of low emission models available to fleets has increased considerably during the past 10 years. For vehicle manufacturers, there is a need to reduce average CO₂ emissions in their ranges to comply with European regulations.

For any organisation that provides company cars, lower CO₂ emissions automatically mean lower costs both for businesses and for drivers as it

reduces companies' National Insurance costs for provision of company cars, and helps reduce drivers' benefit-in-kind tax liability.

Strategies have varied between vehicle manufacturers, with some adopting the latest fuel-saving technology and applying it across their ranges, while others have chosen specific engines or cars to showcase the latest advances.

This guide will explain how reducing vehicle CO₂ emissions can help your clients to reduce fleet costs, and illustrate how savings can be achieved without compromising on quality and choice.



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Emissions key to how much tax drivers pay

Business-in-kind taxation encourages use of low-emission vehicles

Since 2002, carbon dioxide (CO₂) emissions have formed the basis of how drivers are taxed on their company cars in the UK. When benefit-in-kind tax switched from mileage to CO₂ 10 years ago, it prompted a dramatic change in buying patterns for company car providers.

The benefit-in-kind tax bands have tightened since their introduction, with each level of taxation associated with decreasing levels of CO₂ emissions. Tax bands have typically shifted downwards by a 5g/km increment every year since 2008. For example, a driver choosing a diesel car in 2009 with CO₂ emissions of 140g/km would have paid BIK tax on 19% of the car's P11D value in 2009/10,

rising to 20% in 2010/11 and 21% in 2011/12.

Fleet operators should be well aware of this ongoing transition, but the Treasury has not generally published BIK tax bands more than two years in advance, until 2012, when the next five years' BIK tax bands were revealed.

Paying attention to future changes in Budget reports or in the Chancellor's autumn statement will ensure that the latest advice is passed on to fleet operators as soon as it is available.

For example, how many companies were aware that for drivers of cars with CO₂ emissions just below 120g/km there was a significant hike in their BIK tax in April 2012? A recent poll by *Fleet News* suggested that many did not realise cars below 120g/km that had fallen into the lowest BIK tax band (10% for petrol and 13% for diesel), would face a rise of up to five percentage points from 2012/13. Since April, the lowest tax band is 5% for petrol and 8% for diesel, and will apply to cars with CO₂ emissions from 1 to 75g/km. Plug-in vehicles from Vauxhall, Chevrolet and Toyota will be released in 2012 and will fall into this category.

A 119g/km diesel car was in the 13% tax band for 2011/12, but will attract a 17% charge in 2012/13 and 18% the year after.

The 3% supplement for diesel cars will apply until it is removed in 2016, although current diesel hybrid cars are not subject to the premium.

Additionally, drivers need to understand that the P11D value of their car is affected by any factory-fitted options. The more expensive the option the higher the premium it adds to the BIK tax.

Leather seats, a sophisticated satellite navigation system or some optional safety features could be enough to make the difference.

Another tax increase could affect drivers entitled to high-end cars. From April 2011, the removal of a cap on P11D value at £80,000 means that drivers in a vehicle priced higher than £80,000 will be liable for BIK tax on the full value of the car.

For example, the £99,291 Audi Q7 6.0 TDI V12 would have attracted BIK tax capped at £80,000 before April 2011, resulting in an annual bill of £11,200 for a 40% taxpayer. But now BIK is paid on the full P11D value, the annual bill is £13,901 – an increase of more than £200 a month.

Conversely, choosing an electric vehicle (such as the Nissan Leaf) or a plug-in hybrid (such as the Vauxhall Ampera) could reduce drivers' tax liability.

There is currently a 'tax holiday' on all pure-electric vehicles, which applies to both benefit-in-kind tax and employer Class 1A National Insurance contributions. And for plug-in petrol hybrids like the 2012 Vauxhall Ampera, drivers will pay BIK tax on just 5% of the car's value.

ACTION POINTS

- Check whether organisations would be suitable for plug-in vehicles to minimise current tax liability and take advantage of incentives, including reduced fuel costs.

- Ensure businesses are aware of future changes to benefit-in-kind tax, understand the implications of any changes, and are in the best position to advise their company car drivers.

- Ensure businesses communicate to drivers the potential impact of selecting expensive options on their BIK tax bill.

Ensure they are aware that changes to vehicle specifications may increase CO₂ emissions, and therefore BIK rates.

BIK tax bands

CO ₂ (g/km)	% of P11D 2012/13	% of P11D 2013/14
0	0	0
1-75	5	5
76-94	10	10
95-99	10	11
100-104	11	12
105-109	12	13
110-114	13	14
115-119	14	15
120-124	15	16
125-129	16	17
130-134	17	18
135-139	18	19
140-144	19	20
145-149	20	21
150-154	21	22
155-159	22	23
160-164	23	24
165-169	24	25
170-174	25	26
175-179	26	27
180-184	27	28
185-189	28	29
190-194	29	30
195-199	30	31
200-204	31	32
205-209	32	33
210-214	33	34
215-219	34	35
220 or more	35	35

*Add 3% for diesel vehicles up to a maximum of 35%. Note that diesel hybrid cars do not incur this supplement.

Downsizing need not be a painful exercise

Technology is helping to expand the range of low-emission cars

It is increasingly common for organisations providing company cars to impose limits on the emissions of its vehicles.

To ensure a degree of fairness while maintaining structure and hierarchy, CO₂ emissions caps might be set at different levels depending on the employee's grade.

They even apply to senior management in many organisations, and with continuous development, the choice of vehicles at certain low-CO₂ levels is increasing all the time.

However, if senior management are accustomed to having a free choice of car, it could be difficult to persuade them to buy into a new scheme, especially if they perceive that they will have to select a less exclusive vehicle.

Manufacturers have often achieved the greatest reductions in CO₂ emissions at the prestige end of the market. Therefore, modern luxury saloons, typical of those driven by senior executives, have much lower CO₂ emissions now than the equivalent car did a few years ago.

This can be illustrated by the BMW 5 Series. When the BMW 530d was introduced in 1999, its power output was 184PS, and the CO₂ emissions for the manual were 189g/km. The lowest CO₂-emitting 5 Series now is the 520d EfficientDynamics, at just 119g/km. But, its power output is the same as the 530d of 1999.

Currently it is possible to choose editions of either the Audi A6 or the Mercedes-Benz E-Class, even with automatic transmission, with CO₂ emissions as low as 130g/km.

It is also possible to choose large SUVs with emissions below 160g/km, with the Lexus RX450h producing a class-leading 145g/km – unparalleled for a large SUV – while the forthcoming third-generation Mercedes-Benz M-Class will have a sub-160g/km variant.

If company directors can be persuaded to select more efficient cars, the savings in BIK tax, fuel and National Insurance contributions could be significant.

And such choices can send a strong message to other company car drivers about how seriously their employer is taking its fleet carbon footprint and environmental impact.

The interior space in the executive car segment has become much more generous in the latest models, so it's a reasonable suggestion to have this class of car on a choice list to replace larger luxury saloons. Indeed many chauffeur fleets have downsized vehicles in this way.

It is possible to witness a drop in CO₂ emissions of 20g/km or more when comparing six-cylinder diesel engines in a luxury saloon

with an executive class car, while the ready availability of more efficient four-cylinder diesels in the smaller models could result in even greater savings in CO₂ emissions.

The savings go beyond mere emissions, with running cost savings from better fuel efficiency, as well as a significant cut in employers' National Insurance contributions from the smaller vehicle's lower P11D value and BIK tax bands, both of which are used to determine Class 1A National Insurance contributions.

With employers where there is an appetite among management to seek out real low-carbon options, many family cars are now available with equipment and technology that until recently were the preserve of top-end models.

For example, the latest version of the Ford Focus is available with a range of hi-tech features such as adaptive cruise control, traffic sign recognition, active park assist and lane-keeping assist. The car has CO₂ emissions from 109g/km with both petrol and diesel engines.

Cars like the Toyota Prius, which has almost become shorthand for hybrid technology, can be beacons to demonstrate an organisation's environmental credentials, and persuading managers to buy into promoting the business's 'green' performance can be easier when it goes hand in hand with reduced costs.

The Prius' hybrid power train is also available with an upmarket Lexus badge in the CT200h – the premium brand may encourage senior managers to select a sub-100g/km hybrid instead of a less efficient conventional saloon.

ACTION POINTS

- Ensure the person responsible for vehicle procurement is aware of the range of lower CO₂ variants for large cars.
- Check whether hybrid cars would be suitable for the type of driving expected of them. High-mileage, mainly motorway driving would be better covered in an efficient diesel.
- Suggest ways for senior management to select a more efficient car without sacrificing status and luxury, and emphasise the message it would send to other employees about the company's environmental policy.



The lowest CO₂-emitting BMW 5 Series now is the 520d EfficientDynamics, at just 119g/km.

The Ford Mondeo Edge 1.6 TDCi ECO 115PS's CO₂ emissions of just 114g/km mean that National Insurance is only due on 16% of the P11D value, therefore there would be a significant reduction in NIC.



Selecting right vehicles can ease fleet NIC bills

Emissions link to National Insurance Contributions

Providing employees with a company car involves a greater investment than just the cost of buying or leasing the vehicle.

An organisation is responsible for Class 1A National Insurance contributions (NIC) on company cars, and the lower the CO₂ emissions of the vehicles provided, the more a business could save relative to providing higher CO₂ cars.

The scale of payment is based on the same bands as for benefit-in-kind tax, so for the current tax year (2012/13) the scale runs from 5% of the car's P11D price for vehicles with CO₂ emissions from 1-75g/km and 10% for 76-94g/km, rising by one percentage point for every 5g/km up to 220g/km.

Diesel cars have a 3% supplement added, so a 130g/km diesel car is subject to a NIC on 20% of the vehicle's P11D value. However, diesel hybrids, such as the Peugeot 3008 Hybrid4 and the Citroën DS5 Hybrid4, are not subject to the supplement as the rule applies to cars powered solely by diesel.

The current rate at which NIC is applied is 13.8% of the car's P11D value after the BIK tax band calculation has been made.

For example, for an employee in a large family car such as the Ford Mondeo Titanium X Sport 2.0 240PS Eco Boost, with a P11D value of £26,650 and CO₂ emissions of 179g/km, National Insurance is due on 26% of the P11D value. Therefore, the employer would be liable

for NIC of 13.8% of £6,929, which works out to £956 per vehicle.

Running 20 of those vehicles would cost the company a total of £19,120 in this tax year for National Insurance contributions alone.

However, if those vehicles were replaced with the Ford Mondeo Edge 1.6 TDCi ECO 115PS, its CO₂ emissions of just 114g/km mean that National Insurance is only due on 16% of the P11D value, therefore there would be a significant reduction in NIC.

Moreover, more efficient cars with smaller engines may well have a lower P11D value, further reducing National Insurance liability. For example, the Mondeo Edge has a P11D of just £21,065, therefore the NIC would be calculated as 13.8% of £3,370 which equals just £465 per vehicle per year.

The annual NIC cost to the company for 20 of those vehicles would be less than £9,500 – a significant saving to the company across its fleet.

Savings would multiply according to how many vehicles on the fleet can be changed for lower CO₂-emitting cars.

Luckily for drivers and companies, many car manufacturers offer low CO₂ models, as well as offering more efficient engines throughout their ranges.

As the previous section showed, even drivers entitled to large upmarket cars can find more frugal executive cars with efficient engines, which are less costly for both the driver and the company.

ACTION POINTS

- Ensure your clients understand how a car's CO₂ emissions relate to the organisation's National Insurance contribution.
- Demonstrate how choosing a lower CO₂ car will usually result in lower overall costs for both drivers and the company.
- Highlight where an organisation could be making significant cost and emissions savings through modifying the make-up of its fleet.

NIC CALCULATION

How to calculate employer's Class 1A National Insurance contributions

Every car provided as a company vehicle incurs a National Insurance cost paid by the organisation.

It is based on the vehicle's BIK tax band and its P11D value.

Vauxhall Astra 1.7 CDTi 110 EcoFlex 99g/km SE
P11D value: £22,495
BIK tax band (2012/13): 13%

Amount subject to NIC:
 13% of £22,495 =

£2,924.35

NIC calculation: 13.8% of
 £2,924.90 = £403.56

Treasury incentive for taking greener option

Capital Allowance changes make lower emission cars more cost-effective

Treasury changes to capital allowances for company cars in April 2009 had a major impact on the market, and further changes announced in March 2012 are likely to make lower emission cars even more desirable and cost-effective.

The major rewrite of the rules in 2009 surrounding capital allowances for company cars created tax incentives worth hundreds of thousands of pounds for companies running low emission cars.

Some businesses still might not fully understand how making the right choices can save money.

The rules are designed to incentivise the choice of cars emitting 160g/km of CO₂ or less, by allowing companies to offset a greater proportion of the value of the car against their tax bill, compared to cars above the threshold. The rules are slightly different for purchased and leased cars, but both have the same CO₂ target.

For organisations that purchase vehicles outright, buying cars with emissions above 160g/km will only allow the company to write-down 8% of the vehicle's value each year. However, if the organisation runs cars with emissions of 160g/km and below, the writing-down allowance increases to 18%, allowing the company to write off the cost of the vehicle against tax more quickly.

Over a large fleet of vehicles, a significant amount of cash could be wasted if close attention isn't paid to CO₂ emissions.

And in some cases, simply selecting a car with automatic transmission instead of manual, or ticking a box for a four-wheel drive option instead of standard two-wheel drive could break the threshold and have a dramatic impact on tax relief.

Some fleets may be prepared to make an even greater difference to their tax relief by choosing even lower CO₂ models. There is an additional tax

break for fleets running the most fuel efficient cars: businesses can write down 100% of the value of vehicles with CO₂ emissions of 110g/km and lower in the first year of ownership, and this is in place until 2013 when the threshold will be 95g/km.

The qualifying cars are usually small hatchbacks and superminis, but the number of family cars that qualify is increasing. Variants of the Volkswagen Golf, Ford Focus, Vauxhall Astra, Seat Leon and Volvo's DRIVe range all qualify, along with electric cars and many hybrid vehicles.

In terms of performance and prestige, the BMW 320d EfficientDynamics saloon is perhaps the most impressive, while other large cars, such as the Volkswagen Passat BlueMotion and the Peugeot 508 1.6 HDi with EGS (electronic gear shift) also come under 110g/km.

Being able to write down the full value of these vehicles with a relatively high purchase price could be key to the vehicles' success in the UK.

There is a high price attached to plug-in vehicle technology, and a discount of up to £5,000 on plug-in cars has been introduced by the Government to make them more attractive to customers.

For conventional vehicles, specification can affect the CO₂ emissions from model to model. For example, the Honda Civic 2.2 i-DTEC diesel has CO₂ emissions of 110g/km, but only in ES, SE and EX variants. The top-of-the-range EX GT has CO₂ emissions of 115g/km, and so it would not qualify for the 100% writing down allowance.

John Lewis, chief executive of the BVRLA, warned: "Fleet managers should be careful about those cars falling close to the 160g/km and 110g/km tipping points.

"Some extras – maybe different tyres or automatic transmission – will affect the car's emissions, possibly putting it over the break point."

ACTION POINTS

- Ensure businesses are aware of the thresholds for writing down allowances
- Ensure clients are aware of changes to be introduced from April 2013 as well as those introduced in April 2012. For organisations with company cars it is good practice to ensure cars' CO₂ emissions are comfortably within the limits.
- Check that business vehicles will be fit-for-purpose and suitable for the driver before considering its level of writing down

FUTURE CHANGES

From April 2013, the CO₂ threshold at which a business can write down 100% of a car's value in its first year will fall from 110g/km to 95g/km. and the 160g/km threshold will also reduce to 130g/km.

While the changes are likely to impact on a fleet's costs, they serve to highlight the importance and benefits of selecting low-CO₂ vehicles for fleets.



Honda Civic 2.2 i-DTEC diesel has CO₂ emissions of 110g/km, but only in ES, SE and EX variants

Best ways to cut whole life costs

Depreciation, fuel bills and taxation are key to total vehicle cost

Organisations providing company vehicles may be aware of all the factors that contribute to the cost of running a car or van.

But some may still be choosing vehicles on the basis of their purchase price or their lease rate without considering the other areas that contribute to the cost of the car or van over its life cycle as a business vehicle.

If an organisation leases its vehicles from a contract hire company the monthly payment is essentially the amount lost to depreciation during its life cycle, interest on the vehicle and vehicle excise duty, with some built in to allow the contract hire company to operate profitably.

Some vehicle manufacturers offer financial support to the leasing company, allowing them to be more competitive against rivals. Businesses leasing vehicles can also choose to include vehicle maintenance in the contract leaving fuel and insurance as the main remaining costs.

Organisations might prefer leasing to purchasing vehicles outright as a more convenient process with the support of the contract hire company.

Depreciation is normally the largest element of the running cost and the amount will vary according to the age, mileage and condition of the vehicle when deflected. The lower a vehicle's annual mileage, the slower the rate of depreciation.

However, depreciation operates like a curve on a graph, and is steeper when a vehicle is new and more shallow as it ages. It means it is usually more cost effective to run a vehicle over a period of three years or more, and replacing it before maintenance costs on the ageing vehicle begin to offset any further advantage.

As fuel prices have risen, for some high-mileage cars with lower purchase or lease costs, it is possible that the cost of fuel is likely to be the largest component of its running cost over its life-cycle.

This highlights the importance of choosing the

most fuel-efficient vehicles to help reduce whole life costs.

Other elements to consider in a whole life cost calculation are insurance and the cost of finance on cash borrowed to fund purchases. Organisations are also liable to pay National Insurance for employees provided with a company car, based on the value of the vehicle when new as well as the benefit-in-kind tax band as determined by the car's CO₂ emissions.

Car manufacturers are keen to showcase the strides they have made in tackling CO₂ emissions and fuel consumption in recent years.

Sometimes the best examples are restricted to specific models, whereas other car manufacturers apply their latest technology to as many variants as possible. Sometimes these modifications come at a price, and it can be tricky to work out whether a manufacturer's lowest-CO₂ option will actually be the cheapest model to run when whole life costs are accounted for. While some will be clearly less expensive on pence per mile costs, tax liability and writing down allowances could paint a more complex picture.

Choosing wisely can result in significant savings and here is where choosing a vehicle by a whole-life cost calculation can prove most effective.

Some car manufacturers have made advances in improving the efficiency of petrol engines in recent years using smaller engines and turbochargers to increase power to do the job larger, less efficient engines have done in the past.

If an organisation running company vehicles has operated a diesel-only policy to ensure drivers have chosen the most fuel-efficient and least costly vehicles in the past, it might be worth advising a review of the policy to ensure it is the most cost effective.

A diesel-only policy would rule out petrol-electric hybrids, which are now available in a variety of models, making them more suitable for a wider range of drivers and their needs.

ACTION POINTS

- Impose CO₂ caps to reduce overall running costs, reduce BIK tax liability for drivers and employers' National Insurance contributions.

- To ensure vehicles are chosen with whole life costs in mind, check the overall running costs against other models in the range using a running cost calculator.

- If an organisation has a diesel-only policy, it could be missing out on cost advantages of some petrol-electric hybrids and new petrol technology, particularly for urban-based and low-mileage fleets. Ensure the policy allows drivers to choose the most fuel-efficient options.

RUNNING COST OF A FORD FOCUS 2.0 TDCI ZETEC OVER THREE YEARS/60,000 MILES

P11D	Residual value	MPG	Depreciation	SMR	Fuel	Total
£19,440	£5,468	56.5	22.98ppm	2.72ppm	11.63ppm	33.73ppm

(Source: KeeResources)

Note: Total ppm costs do not vary in direct proportion to changes in the vehicle's holding period or mileage life cycle.

The Energy Saving Trust is an independent, non-profit organisation with a mission to promote the sustainable and efficient use of energy. We offer independent, practical advice to help organisations with fleets reduce fuel consumption costs and improve efficiency.



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