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Company Car Tax Spring 2021



A guide to the Spring
2021 Budget for
fleet decision-makers

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Introduction

Budget 2020 was dominated by the Government's responses to the COVID-19 pandemic, but there were some small but significant changes announced to company car taxation, in addition to the measures set out at Budget 2020.

As legislated in 2020, 100% electric cars with zero tailpipe emissions will cease to be exempt from BIK tax from April 2021 and drivers will become eligible for a nominal 1% charge on the P11D value of the car.

The 1% rate rises to 2% in 2022/23 but remains at that level until 05 April 2025, making a strong case for company car drivers to select a car with zero emission capability when driving prior to the UK ban on sales of all new petrol and diesel cars (except for some hybrids) in 2030.

Elsewhere, the Government Plug-in Car Grant now faces a £35,000 price cap with the maximum grant cut to £2,500. A RPI-linked VED rise sees a modest increase, but zero-emission cars remain exempt.

A CPI-related increase in Vehicle Benefit Charges for employer-provided 'free' fuel and BIK tax for company-owned vans used for private mileage, as well as a rise in VED for vans, joined a freeze on petrol and diesel duty for the 11th consecutive year.

This Alphabet Guide to Company Car Tax examines the findings from Budget 2021 on March 3, and offers explanations and guidance to the company car tax system.

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Vehicle Excise Duty

Vehicle Excise Duty (VED) rates for 2021/22 are subject to a Retail Price Index-based rise, shown in the tables (*right*).

Diesel cars that do not meet the Real Driving Emissions Step 2 (RDE2) standard are subject to increased first-year rates, unless they are already in the highest band. Cars priced at over £40,000 with zero emissions of CO₂ when driving are exempt from the additional rate until 31 March 2025.

- **First-year rate:** Applicable to all cars registered after 01 April 2018, with increased rates for non-RDE2-compliant diesels
- **Standard rate (yr2 onwards):** £155 – cars with CO₂ emissions of 1g/km or over with a list price of £40,000 or less
- **Additional rate (yr2 onwards for five years):** £490 – cars with CO₂ emissions of 1g/km or more with a list price over £40,000

Vehicle Excise Duty: cars registered on or after 01 April 2017

2021/22				
CO ₂ emissions (g/km)	First year rate (compared with 2020/21)	First year rate for diesel cars (compared with 2020/21) ¹	Standard rate (Yr2 on for cars with list price of £40,000 or less)	Additional rate (Yr2 on for cars with list price of over £40,000) ²
0	£0 (+£0)	£0 (+£0)	£0	£0
1-50	£10 (+£0)	£25 (+£0)	£155 (+£5)	£490 (+£15)
51-75	£25 (+£0)	£115 (+£5)	£155 (+£5)	£490 (+£15)
76-90	£115 (+£5)	£140 (+£5)	£155 (+£5)	£490 (+£15)
91-100	£140 (+£5)	£160 (+£5)	£155 (+£5)	£490 (+£15)
101-110	£160 (+£5)	£180 (+£5)	£155 (+£5)	£490 (+£15)
111-130	£180 (+£5)	£220 (+£5)	£155 (+£5)	£490 (+£15)
131-150	£220 (+£5)	£555 (+£15)	£155 (+£5)	£490 (+£15)
151-170	£555 (+£15)	£895 (+£25)	£155 (+£5)	£490 (+£15)
171-190	£895 (+£25)	£1,345 (+£40)	£155 (+£5)	£490 (+£15)
191-225	£1,345 (+£40)	£1,910 (+£60)	£155 (+£5)	£490 (+£15)
226-255	£1,910 (+£60)	£2,245 (+£70)	£155 (+£5)	£490 (+£15)
Over 255	£2,245 (+£70)	£2,245 (+£70)	£155 (+£5)	£490 (+£15)

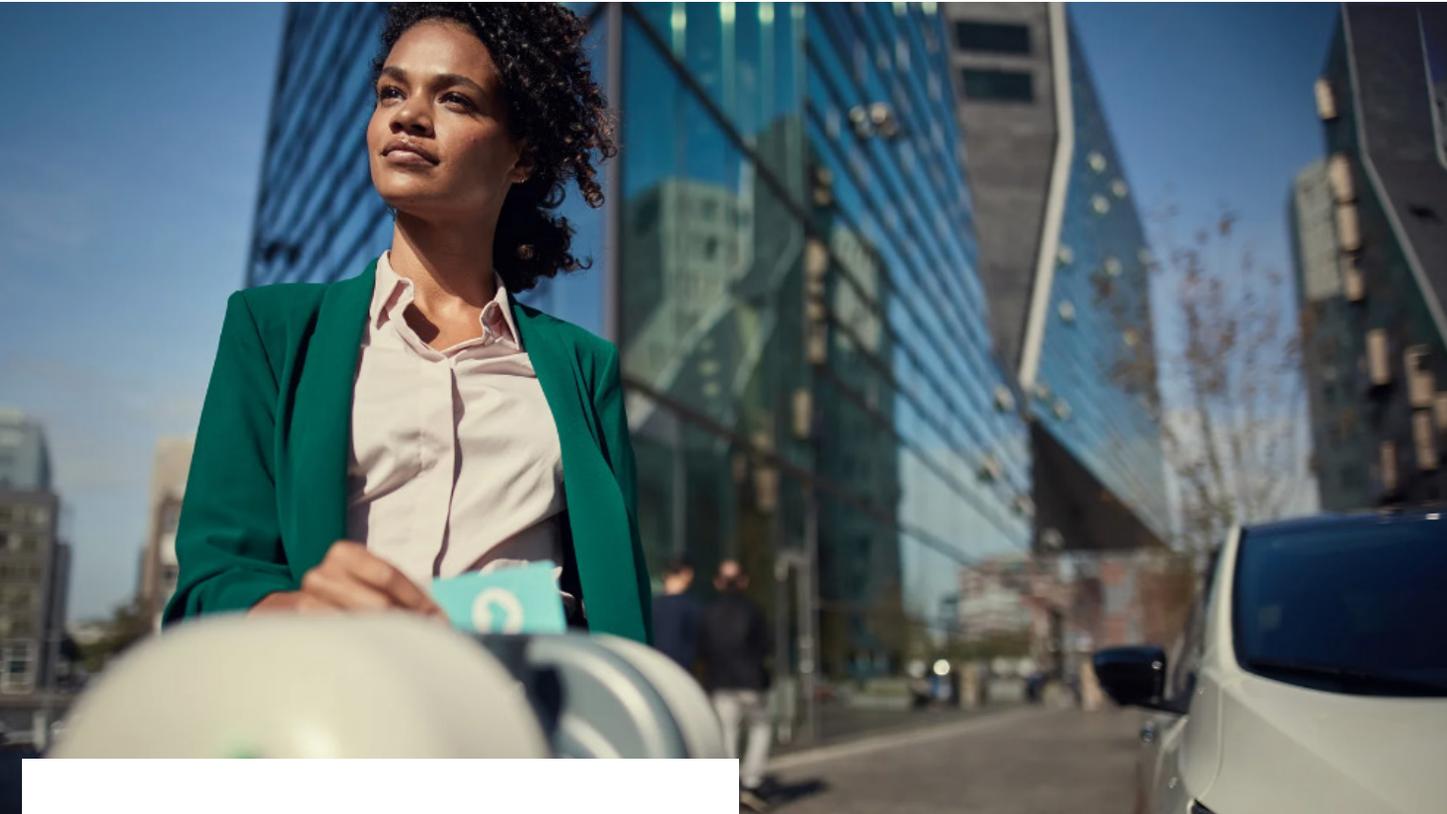
¹ Applies to diesel vehicles that do not meet the Real Driving Emissions Step 2 (RDE2) standard. Alternative fuel vehicle, including hybrids, bioethanol and LPG, pay £150 a year. ² Cars with a list price over £40,000, except those with zero emissions of CO₂ when driving, pay an additional rate of £335 a year on top of the standard rate for five years. 2021/22 rates apply from 01 April 2021

Vehicle Excise Duty: rates for cars registered on or after 01 March 2001

VED band	CO ₂ emissions (g/km)	2021/22 standard rate (increment over 2020/21)
A	Up to 100	£0 (+£0)
B	101-110	£20 (+£0)
C	111-120	£30 (+£0)
D	121-130	£130 (+£5)
E	131-140	£155 (+£5)
F	141-150	£170 (+£5)
G	151-165	£210 (+£5)
H	166-175	£250 (+£10)
I	176-185	£275 (+£10)
J	186-200	£315 (+£10)
K ¹	201-225	£340 (+£10)
L	226-255	£585 (+£20)
M	Over 255	£600 (+£20)

¹ Figures in brackets show comparison with 2020/21. Includes cars emitting over 225g/km registered before 23 March 2006. 2021/22 rates apply from 01 April 2021

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Company Car Tax

Company car Benefit-in-Kind (BIK) tax is based on a car's P11D price and emissions of CO₂. For cars with CO₂ emissions of 1-50g/km, the number of miles they can drive with zero emissions of CO₂ has a significant bearing on tax liabilities.

On 06 April 2020, the way in which BIK tax is calculated underwent substantial reform. Registrations before 06 April 2020 are taxed according to the previous NEDC band structure (see table right). New car registrations use WLTP CO₂ figures, shown in the table on the next page.

Click [HERE](#) for more on Company Car Tax

The two tiers align in 2022/23 and then apply until April 2025. For diesels and hybrids that do not meet Real Driving Emissions Step 2 (RDE2) standards, a 4% tax charge applies, shown in brackets.

In 2021/22, cars with zero CO₂ emissions when driving, such as battery-electric vehicles (BEV), are eligible for BIK tax at 1% of P11D value regardless of their registration date.

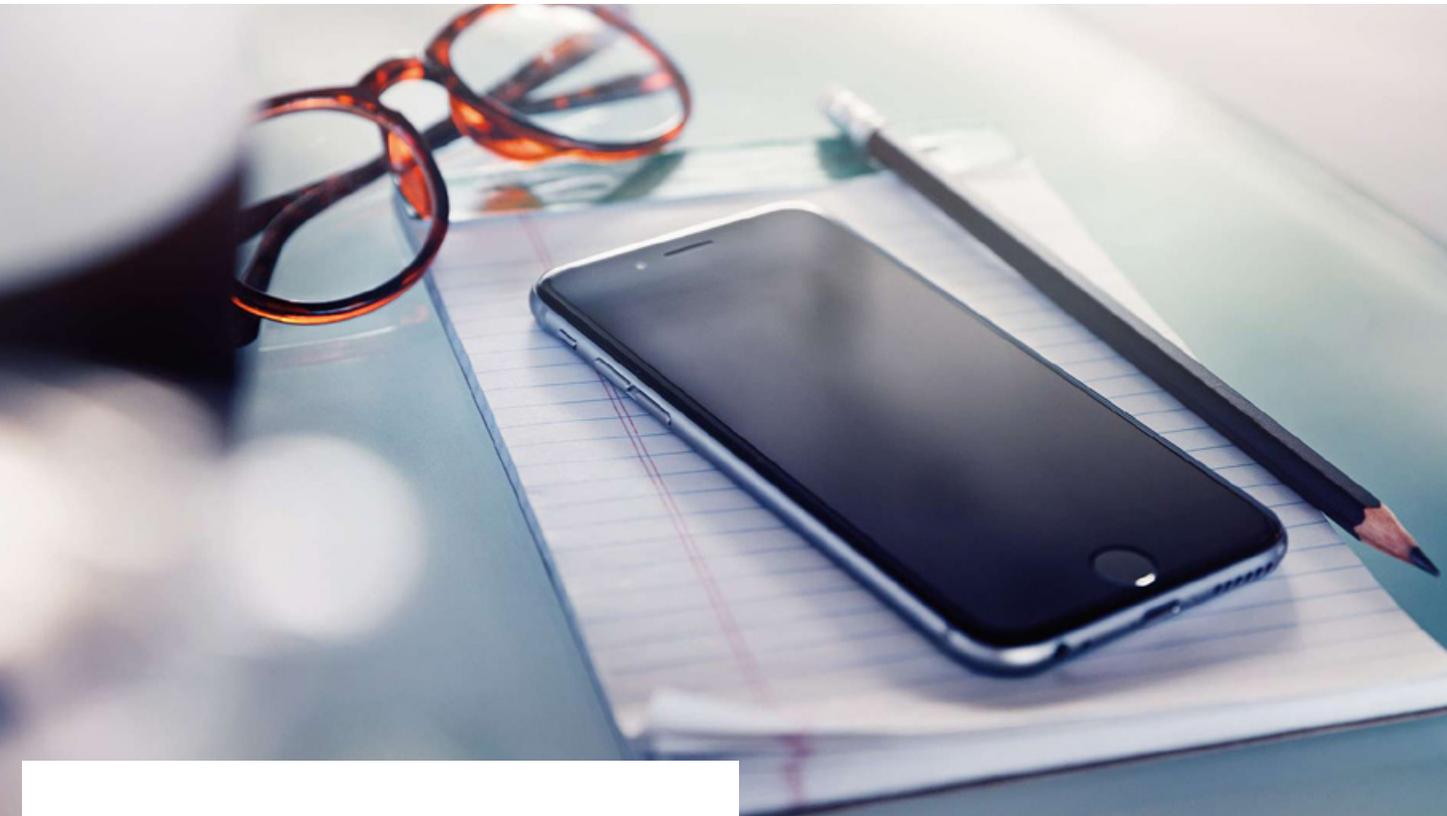
CO₂ emissions information for all cars is available from the Vehicle Certification Agency at www.vehicle-certification-agency.gov.uk.

Taxable percentages of P11D value: cars first registered before 06 April 2020

NEDC CO ₂ emissions (g/km)	Zero emissions range ¹	2021 – 2025	
		BIK % 2021/22	BIK % 2022/23 ²
0	All	1	2
1-50	Over 130	2 (6)	2 (6)
1-50	70-129	5 (9)	5 (9)
1-50	40-69	8 (12)	8 (12)
1-50	30-39	12 (16)	12 (16)
1-50	Up to 30	14 (18)	14 (18)
51-54	-	15 (19)	15 (19)
55-59	-	16 (20)	16 (20)
60-64	-	17 (21)	17 (21)
65-69	-	18 (22)	18 (22)
70-74	-	19 (23)	19 (23)
75-79	-	20 (24)	20 (24)
80-84	-	21 (25)	21 (25)
85-89	-	22 (26)	22 (26)
90-94	-	23 (27)	23 (27)
95-99	-	24 (28)	24 (28)
100-104	-	25 (29)	25 (29)
105-109	-	26 (30)	26 (30)
110-114	-	27 (31)	27 (31)
115-119	-	28 (32)	28 (32)
120-124	-	29 (33)	29 (33)
125-129	-	30 (34)	30 (34)
130-134	-	31 (35)	31 (35)
135-139	-	32 (36)	32 (36)
140-144	-	33 (37)	33 (37)
145-149	-	34 (37)	34 (37)
150-154	-	35 (37)	35 (37)
155-159	-	36 (37)	36 (37)
160+	-	37 (37)	37 (37)

Source: HMRC. Figures in brackets apply to diesels. Diesel hybrids and diesel cars that meet the Real Driving Emissions Step 2 (RDE2) standard are exempt from the tax charge. ¹In miles when driving. ²2022/23 rates apply until 31 March 2025

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BIK tax percentages for cars first registered after 06 April 2020 using WLTP figures are shown in the table (right).

As confirmed in Budget 2020, 2022/23 percentages will continue unchanged until 05 April 2025.

Example: BIK tax calculation.

A new BMW X1 sDrive18i M Sport 5dr has a P11D price of £33,210 and WLTP-derived CO₂ emissions of 148g/km, putting it in the 33% BIK band in 2021/22. £33,210 x 33% gives a taxable value of £10,959, equating to yearly BIK tax of £2,192 (£183/month) for a 20% tax payer, or £4,384 a year (£365/month) for a 40% tax payer.

Example: BIK tax calculation.

A new BMW 330e M Sport Saloon has a P11D price of £42,080, electric range of up to 36 miles and CO₂ emissions of 36g/km, putting it in the 11% BIK band in 2021/22. £42,080 x 11% gives a taxable value of £4,629, equating to yearly BIK tax of £926 (£77/month) for a 20% tax payer, or £1,852 a year (£154/month) for a 40% tax payer.

Taxable percentages of P11D value: cars registered after 06 April 2020

WLTP CO ₂ emissions (g/km)	Zero emissions range ¹	2021 – 2025	
		BIK % 2021/22	BIK % 2022/23 ²
0	All	1 (5)	2 (6)
1-50	Over 130	1 (5)	2 (6)
1-50	70-129	4 (8)	5 (9)
1-50	40-69	7 (11)	8 (12)
1-50	30-39	11 (15)	12 (16)
1-50	Up to 30	13 (17)	14 (18)
51-54	-	14 (18)	15 (19)
55-59	-	15 (19)	16 (20)
60-64	-	16 (20)	17 (21)
65-69	-	17 (21)	18 (22)
70-74	-	18 (22)	19 (23)
75-79	-	19 (23)	20 (24)
80-84	-	20 (24)	21 (25)
85-89	-	21 (25)	22 (26)
90-94	-	22 (26)	23 (27)
95-99	-	23 (27)	24 (28)
100-104	-	24 (28)	25 (29)
105-109	-	25 (29)	26 (30)
110-114	-	26 (30)	27 (31)
115-119	-	27 (31)	28 (32)
120-124	-	28 (32)	29 (33)
125-129	-	29 (33)	30 (34)
130-134	-	30 (34)	31 (35)
135-139	-	31 (35)	32 (36)
140-144	-	32 (36)	33 (37)
145-149	-	33 (37)	34 (37)
150-154	-	34 (37)	35 (37)
155-159	-	35 (37)	36 (37)
160-164	-	36 (37)	37 (37)
165-169	-	37 (37)	37 (37)

Source: HMRC. Figures in brackets apply to diesels. Diesel hybrids and diesel cars that meet the Real Driving Emissions Step 2 (RDE2) standard are exempt from the tax charge. ¹In miles when driving. ²2022/23 rates apply until 05 April 2025

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Capital Allowances

Company cars bought outright are eligible for write-down allowances, where capital outlay can be offset against tax. The allowance threshold between the 18% main and 6% special rates is based on CO₂ emissions, set at 50g/km from April 2021. For cars with CO₂ emissions of 1-50g/km, the capital allowance is 18% a year, while for cars with CO₂ emissions of 51g/km or more it is 6%.

100% first year allowance

A 100% first-year allowance (FYA) applies to cars with zero emissions

of CO₂ until April 2025, but leasing companies are excluded. A 100% FYA is also available until 31 March 2023 for companies investing in electric vehicle charge points in the workplace. Electric vans with zero emissions of CO₂ when driving are also eligible for a 100% FYA until 31 March 2025 provided the Plug-in Van Grant (PIVG) has not also been claimed. All other vans are eligible for an 18% annual allowance.

A 130% capital allowance 'super deduction', effective from 01 April 2021 to 31 March 2023, applies in the first year to expenditure on new

main pool items, such as vans and charging equipment but excluding company cars, allowing tax cuts of up to 25p for every £1 invested.

Lease rental restriction

Lease rentals can be offset against tax, with the threshold set as for special rate capital allowances at 50g/km of CO₂. New cars with CO₂ emissions of 50g/km or less are eligible for 100% of lease payments to be offset against tax, while only 85% is claimable for those with CO₂ emissions of 51g/km or more.

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Fuel Allowances

The private fuel benefit

BIK tax is payable by drivers receiving employer-provided private fuel (petrol and diesel, including hybrids) for private mileage in a company car. To calculate the tax, the Government Fuel Benefit Charge (FBC) is used, set at £24,600 in 2021/22.

As electricity is not classed as a fuel, there is no fuel scale charge applied to 100% electric cars and no tax is due.

Example: calculating tax due on private fuel

A new BMW 320d M Sport Saloon has WLTP-derived CO₂ emissions

of 124g/km giving a BIK tax percentage of 28% in 2021/22. Its WLTP combined fuel consumption figure is 56.5mpg. £24,600 x 28% gives a taxable value of £6,888. Multiplying by the driver's income tax rate gives annual tax of £6,888 x 20% = £1,378, or £6,888 x 40% = £2,755.

With the average price of unleaded at £5.83/gal or £1.28/litre (April 2021), £1,378 will buy around 236 gallons (1,073 litres) for a 20% tax payer; for a 40% tax payer, it is 472 gallons (2,145 litres).

Multiplying each by the BMW 320d M Sport's combined fuel consumption of 56.5mpg gives 13,351 miles for a 20% tax payer,

or 26,701 miles for a 40% tax payer – the minimum private mileages you need to cover to make the private fuel benefit worthwhile.

Personal car used for business mileage

The HMRC-approved mileage allowance payments (AMAPs) – the tax-free amounts claimable by a driver using his/her own car for business mileage reimbursement – are shown below for 2021/22.

Approved Mileage Allowance Payment (AMAP) rates 2021/22		
	Up to 10,000 miles	Over 10,000 miles
All cars	45p	25p

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Class 1A NIC

Class 1A National Insurance Contributions are payable at 13.8% of taxable value by the employer on the company car benefit and employer-provided 'free' fuel for private use.

For hybrids, the number of zero-emission miles the car can travel has a bearing on tax payable. As electricity is not a fuel, 100% electric cars are exempt from Class 1A NIC in 2021/22 as there is no fuel scale charge.

Class 1A NIC – petrol, diesel and hybrid cars

A BMW 330e M Sport Saloon, with a P11D price of £42,080 and WLTP CO₂ emissions of 36g/km, has a tax charge of 11% of P11D value in 2021/22.

£42,080 x 11% gives a taxable value of £4,629. Multiplying by 13.8% derives the annual Class 1A NIC contribution due – £639.

Class 1A NIC – private fuel (petrol, diesel and hybrid cars)

For private fuel, the Fuel Benefit Charge – £24,600 in 2021/22 – applies. Multiplying by the BMW 330e M Sport Saloon's 11% tax charge gives a taxable value of £2,706. Multiplying by 13.8% derives the NIC due – £373.

For further information on Class 1A NIC on car and fuel benefits, click [HERE](#).

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Commercial Vehicles

Company owned vans: BIK tax

Zero emissions vans are exempt from BIK tax in 2021/22. The Van Benefit Charge (VBC) for drivers of company vans using their vehicles for private mileage is set at £3,500 from 06 April 2021. From the same date, the VBC for fuel for private use is set at £669.

	2021/22
Monthly BIK tax (ex fuel)	£58.33/£116.67
Monthly BIK tax (inc fuel)	£69.48/£138.97

Figures shown for 20%/40% tax payers

Company owned vans: Class 1A NIC

Zero emission vans are exempt from NIC in 2021/22. Annual Class 1A National Insurance Contributions for vans are based on the Van Benefit Charge – £3,500 in 2021/22. The amounts due are calculated by multiplying the VBC by 13.8%, with the rates shown shown below.

	2021/22
Annual Class 1A NIC (ex fuel)	£483.00
Annual Class 1A NIC (inc fuel)	£575.32

Company owned vans: Vehicle Excise Duty

VED rates for 2021/22 are shown below. There was no further detail on the consultation on reforming VED to incentivise van drivers to make the cleanest choice when purchasing a new van, which closed in September 2020 and has been delayed owing to COVID-19.

	2021/22
Euro 4 and 5 vans registered between 01 March 2003	£140
All other vans registered on or after 31 March 2001	£275

2021/22 rates apply from 01 April 2021

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Plug-in Grants

The Government Plug-in Grant is available only to cars with zero emissions of CO₂ and a purchase price of £35,000* or less. The grant is a maximum of £2,500 per car in 2021/22.

In line with the Government's **Ten Point Plan for a Green Industrial Revolution**, published in November 2020, UK sales of new petrol and diesel cars and vans will end by 2030 with exceptions for hybrids that can travel a significant distance with zero tailpipe emissions. The plan is backed by a £2.8 billion funding package, of which £1.3 billion is set to be invested in charging infrastructure over the next four years. £582 million will extend the Plug-in Car, Van, Taxi

and Motorcycle Grant scheme to 2022/23, and the rollout of a fast-charging network of more than 2,500 high-powered chargepoints is pledged to be in place for electric vehicles, rising to 6,000 by 2035.

All ULEVs are eligible for the Electric Vehicle Homecharge Scheme (EVHS) grant, even if they don't qualify for a Plug-in Grant. The EVHS covers up to 75% of the cost of installing a charge point at home, capped at £350 inc VAT in 2021/22.

Go to www.gov.uk/government/organisations/office-for-zero-emission-vehicles for further information.

- **Plug-in Grant-eligible cars:** Cars with zero CO₂ emissions priced under £35,000* receive a grant of up to £2,500.
- **Motorcycles:** Motorcycles with CO₂ emissions of 0g/km and a zero-emission range of at least 31 miles receive a grant of up to £1,500.
- **Vans:** Vans with CO₂ emissions of 50g/km or less and a zero-emission range of at least 60 miles receive a grant of up to £3,000 (under 2.5t GVW). Vans of 2.5-3.5t GVW receive a grant of up to £6,000.
- **Workplace Charging Scheme:** The WCS reduces the cost of a new workplace charging station by 75% (capped at £350 per socket). A business can claim for up to a maximum of 40 chargepoints (ie 40 single sockets or 20 double sockets).

*For private, business, fleet or demonstration models the purchase price of the vehicle is the price paid by the customer, including discount, not the recommended retail price. Purchase price includes: number plates, vehicle excise duty, VAT and excludes any optional extras, delivery charges and first registration fee.