

## Contractors can buy low emission company cars tax efficiently

If you're a [limited company contractor](#) who has looked at [buying a company car](#) in the past, your accountant has probably worked out for you that it's cheaper to buy and run your own car, and charge your contractor limited company the mileage.

But as James Abbott of contractor accountant [Baker Watkin](#) explains, new models with ultra-low emissions now mean that some contractors could find it more tax-efficient to buy a new car through their limited company.

He explains: "Car firms have risen to the challenge of the government's emissions-based tax bands by releasing some smart new models, which may make it possible for some contractors to cost effectively buy a top marque vehicle through their company."

### Company car purchase - do the maths...

"If you take a mid-range saloon with a list price of, say £20,000 with CO2 emissions of 150 g/km according to HMRC's scales the benefit-in-kind (BIK) is calculated at 20% of the list price," explains Abbott. "That means, if you buy this through your company, it's going to put extra income on your personal tax return of £4,000, which for a higher rate taxpayer means an extra £1,600 in income tax. What's more, there'll be a 12.8% National Insurance charge for your company based on the benefit, that's another £512."

However, if a contractor buys a green low emission car, with emissions not exceeding 120g/km CO2, then the BIK is measured at only 10% of the list price (or 13% if diesel). So, for the same £20,000 list price, it only gives rise to an £800 tax charge for the contractor plus £256 National Insurance for the company.

"Plus," says Abbott, "100% of the capital purchase cost of the greener vehicle is allowed in that company's tax year providing the emissions don't exceed 110g/km, whereas companies running a higher emission vehicle have to make to do with claiming 10% or 20% over several years. This means the full £20,000 attracts no corporation tax, and that's £20,000 you've not had to pay out of your net personal income."

### Leasing a company car

According to Abbott, there is also a benefit to leasing a greener car, as lease costs for vehicles with an emissions rating of 160g/km CO2 or less are 100% allowable, whereas cars over that rating attract a 15% penalty.

"This means that if you've leased a model emitting less than 160g/km CO2 it costs you £1,000 a month, and you can claim the full £1,000 as a business expense," he says. "But if you've chosen to lease a model with a rating of 160g/km CO2 or higher, then the most you can offset against your corporation tax is 85%."

### Company car versus private purchase

So, if you're trying to decide which option is best for you – company versus private – you need to consider the private option in the following circumstances where (a) exceeds (b):

- the costs of the company running the car (remembering to take off the corporation tax saving) plus the personal tax you pay on the BIK
- the corporation tax saving for your company as a result of paying you 40p per business mile (or 25p if over 10,000 miles) plus the costs to you of buying and running the car personally.

"It's not an easy calculation and, as it is going to be different for each contractor, you should check with your accountant," Abbott advises. "But for some contractors, owning a new low emission company car may be a cost-effective possibility. "And," he concludes, "as the BIK rules don't take into account business mileage, contractors who do lots of private mileage or who want to run a second car through their company should look at the company car option more closely because they don't benefit from the higher mileage claims of 40p per mile."

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James Abbott heads up Baker Watkin's tax department and often speaks on freelancer / contractor tax matters. He has his own portfolio of contractor clients.

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