

Is it worth contractors buying a company car?

Contractors who use their cars to travel to and from their client's site and use their own [contracting limited company](#) have the option of buying a company car. However, as Phil Richards of accountants [Blevins Franks](#) explains, the vast majority of contractors are financially better off by claiming mileage expenses.

"Many more contractors are considering buying company cars through their contracting limited companies," explains Richards, "since new capital allowances have been introduced on some low carbon-dioxide emission models."

However, as Richards will illustrate using the example of a Honda Civic Hybrid 1.4 IMA ES CVT four-door with ultra low emissions of 109 gCO₂/Km, it comes down to a contractor's personal circumstances as to whether a company car is right for them.

Contractor's company buys a Honda Civic Hybrid

The capital allowance in first year saves £3672.90 in corporation tax (21% of £17,490)

The contractor who has to pay personal tax on their company car at the higher rate is $£1749 \times 40\% = £699.60$

Class 1a NI on $£1749 \times 12.8\% = £223.87$

Total tax and NI Year 1 = £923.47

Corporation tax saved on Class 1aNI = £47.01

Net Tax Saving is $£3762.90 - £923.47 + £47.01 = £2796.44$ (in first year)

If the contractor's limited company pays personal fuel then there will be a personal tax charge of:

$£16900 \times 10\% = £1690$ $£1690 \times 40\% = £676$

Which means the net tax saving in the first year would be £2120.44

If the contractor then adds road tax, repairs, maintenance and insurance, say of £2000 a year paid by the company, this gives a corporation tax saving of £420. Fuel costs at 12,000 miles a year and 60mpg of £1000 give a corporation tax saving of £210.

In summary:

The total tax saving in year 1 with no private fuel is £3426.44

The total tax saving in year 1 with private fuel is £2750.44

However, this figure is only a snapshot of the first year; the contractor needs to consider the numbers over 3 to 5 years in order to understand the full cost implications. This is especially important as the capital allowances are written off in the first year, and when the contractor sells the car after 3 or 5 years, this is counted as a profit in the business and, accordingly, liable for corporation tax.

Contractor uses their own private car and claims mileage

The next example is to assume that the contractor travels 12,000 miles a year and is spending £1000 on fuel and £2000 on road tax, repairs, maintenance and insurance, costing an estimated £3000.

Mileage Payments are 10,000 at 40p/mile and 2000 at 25p/mile, which totals £4500.

The "profit" to the contractor, essentially a tax-free payment for the investment in the car, is £1500, equivalent to £2500 of gross tax-paid income, so saving the contractor £1000 in tax.

There is also a corporation tax saving of £945 on the mileage payments to the director. Therefore, the total tax saved is £1945. On the face of it, the contractor looks like they are better off with a company car. But that's not the end of the story.

But what happens over three years?

Company cars very often have a three-year life and are sold at the end of that period. If the contractor sells the company car, still the same Honda Civic Hybrid, after three years at 30% of its

“ Many more contractors

original value, which is £5247, a profit of this amount will appear in the company accounts as a taxable item with a corporation tax charge of £1,101.87 payable.

And contractors should not get any ideas about selling the car to friends or family at a discount – HMRC will start asking awkward questions if they spot this

This changes the sums and makes the private car option much more attractive.

Tax saving	Company car		
	No private fuel	Private fuel	Mileage payments
Year 1	3426.44	2750.44	1945
Year 2	-246.46	-922.46	1945
Year 3	-1348.33	-2024.33	1945
Total tax saved	1831.65	-196.35	5835

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Phil Richards, Blevins Franks

Just to complicate matters, if the contractor took the private option and bought the car personally, the cash they would have saved to buy the car would have cost them £6996 in personal taxes to earn. So, in fact, the company car option suddenly looks attractive again.

So, what should contractors do?

This example illustrates that each contractor’s situation is going to be different and that contractors should not choose their vehicles and the methods of buying them purely for reasons of tax efficiency. Certainly, any vehicle that does not boast ultra-low emissions is going to be more expensive as a company than a private car.

Some contractors may require a certain kind of vehicle because of the contracting work they do. For example, a civil engineering contractor may spend much of their time travelling over large construction sites and require an all-terrain vehicle, such as a four-wheel drive.

Contractors who feel they might have a case for buying a company car would be wise to run the numbers with their accountant before making any decisions. And whether choosing a private or company car, financially it’s generally good advice not to buy a brand new one.

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