Inland Revenue

CA33
National Insurance Contributions Series

Class 1A National Insurance contributions on Car and Fuel Benefits

A guide for employers

Use from
6 April 2005

Help

We can help you

By telephone

(Calls may be recorded for quality and training purposes.)

- New employers *(less than 3 years)* **0845 60 70 143**
  open Mon – Fri, 8am-8pm and Sat – Sun, 8am-5pm.
- More experienced employers **0845 7 143 143**
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For a list of helplines and opening hours, see your *Employer's Bulletin.*

In person

We have specially trained Business Support Teams covering all parts of the country to help you understand

- what records to keep
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The Business Support Teams can arrange a one-to-one visit at your business address to sort out your payroll needs. They also offer a range of workshops on specific subjects designed with busy employers in mind.

For more details, and to book a one-to-one visit or a workshop, contact your local Business Support Team by

- logging on to our website at www.inlandrevenue.gov.uk/bst/index.htm or
- calling the New Employer's Helpline on **0845 60 70 143** and asking for details of your local Business Support Team.

At your local Inland Revenue office

Your local Inland Revenue office can also help you. To contact them, look under 'Inland Revenue' in your phone book. Write the telephone number below for future use.

Please tell us your reference, which you can find on all correspondence from your Inland Revenue office.

If your enquiry is about one of your employees, please also tell us their National Insurance number.

By Internet

Log on to the Employer's website at www.inlandrevenue.gov.uk/employers

Further guidance

Employer's Help Books

In addition to those included in the Employer's Pack we have Employer's Help Books covering

- *Pay and time off work for parents, E15*
- *Pay and time off work for adoptive parents, E16*

The Help Books are for guidance only.
They are not comprehensive and have no legal force.

We also have a number of other booklets that give further guidance, for example

- *Employer's Further Guide to PAYE and NICs, CWG2(2005)*
- *Class 1A NICs on benefits in kind, CWG5(2005)*
- *Expenses and Benefits – a tax guide, 480(2005)*

You can view the full range of these booklets, and other forms and guidance on

- the Internet – log on at www.inlandrevenue.gov.uk/employers
- the Employer's CD-ROM.

or you can

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**The CD-ROM contains forms you can complete on screen, such as P11D, a new Learning Zone and a New Employer's Section.*

Calculators have been built-in to help speed up your calculations of-

- *Pay Adjustment and PAYE*
- *NICs contracted out and not contracted-out*
- *Car benefit and Car Fuel benefit*
- *Student Loans*
- *Statutory Sick Pay*
- *Statutory Maternity Pay*

Forms and guidance in Braille, large print or audio

We have a range of services for people with disabilities, including leaflets in Braille, audio and large print.
For details, please ask at your local Inland Revenue office or Enquiry Centre.

Yr Iaith Cymraeg

Ffoniwch **0845 302 1489** i dderbyn fersiynau Cymraeg o ffurflenni a chanllawiau.

Contents

Introduction

1 Do I need to read this guide?

You should read this guide if you

- are an employer who provides cars to your employees
- provide cars to employees of another employer.

2 What else do I need to read?

From 6 April 2000 Class 1A National Insurance contributions (NICs) are due on most taxable benefits, including car and fuel benefits. Leaflet *Class 1A NICs on benefits in kind, CWG5 (2005)* is the main guide to reporting and paying Class 1A NICs on benefits.
It tells you

- what benefits are liable for Class 1A NICs
- when liability for Class 1A NICs arises, and
- how Class 1A NICs are reported and paid.

If you provide any type of benefit which you are required to report on forms P11D (or substitute) you should read leaflet *Class 1A NICs on benefits in kind, CWG5.* See Further guidance section on the inside cover of this guide if you did not receive a copy of the leaflet or you need to obtain a further copy.

3 How can this guide help me?

This guide replaces the April 2004 edition.

Because there are special rules about how tax and Class 1A NICs are worked out on car and fuel benefits, this guide is available in addition to leaflet CWG5.

This guide tells you how the taxable benefit of providing a car is worked out. It shows you how the taxable benefit can be adjusted, for example because the car is unavailable for part of the year, and how it is used to calculate Class 1A NICs. It also explains what NICs are due if you provide your employees with fuel for use in the cars you provide.

Throughout this guide explanations are given of some of the main terms you will come across in working out car and fuel benefits.

4 Information about PAYE and Class 1 NICs

We provide a wide range of leaflets and booklets to explain different aspects of tax and NICs in plain English.

For general information on PAYE and Class 1 NICs, see the Employer's Help Books. For special or unusual cases, see leaflet *Employer's Further Guide to PAYE and NICs, CWG2 (2005).*

If you are a new employer or are providing car and fuel benefits for the first time, you should read

- Booklet *Expenses and Benefits - A tax guide, 480 (2005)*
- Booklet *Employee Travel - A Tax and NICs Guide for Employers, 490*

To assist accountants, Financial Directors and other Financial Advisors, some sections of this guide include statutory references. The statutory references are taken from

ITEPA 2003 - *the Income Tax (Earnings and Pensions) Act 2003,* as amended

SSCBA 1992 - *the Social Security Contributions and Benefits Act 1992* as amended

SS(C)R 2001 - *the Social Security (Contributions) Regulations 2001* as amended.

This manual is intended for guidance only and reflects the NIC position at the time of writing. It is not a complete description of the law and does not affect any right of appeal.

If you are unhappy with any aspect of the service you have received from the Inland Revenue, you should complain to the manager at the office you have been dealing with.

Part 1 Working out Class 1A National Insurance contributions

8 Introduction

Since 6 April 1991, Class 1A NICs have been due on cars and fuel benefits. From 6 April 2000, Class 1A NICs have been due on most taxable benefits. Class 1A NICs are paid by employers. There is no employee contribution payable.

9 How are Class 1A NICs worked out?

From 6 April 2000, Class 1A NICs are worked out in one calculation, using the total cash equivalent figure of all benefits liable for Class 1A NICs.

The rules for working out the cash equivalent of a benefit are the same for both tax and Class 1A NICs. This means that you can use the figures you report on an employee's P11D (or substitute) - *Return of Expenses and Benefits,* to work out the amount of Class 1A NICs due. The P11D has been designed to help you do this by showing you which benefits attract a Class 1A NICs liability.

10 How do I work out how much Class 1A NICs I have to pay?

Once you have worked out the cash equivalent of each benefit you provide, including the cash equivalent of car and fuel benefits, you

- add together each cash equivalent figure recorded on individual P11D forms to get a single figure, and
- multiply that figure by the Class 1A NICs percentage rate.

The percentage rate at which Class 1A NICs are worked out is the employer's not contracted-out Class 1 NICs percentage rate for the tax year in which the benefit is provided. For the 2004-2005 tax year, the Class 1A NICs percentage rate is 12.8%

Example

During the tax year 2004-2005, you provide company cars and private health care to 25 of your employees.

The cash equivalent figures reported on each employee's P11D are £150 health care and £3000 car benefit.

To calculate the amount of Class 1A NICs due:

Step 1 Add the total cash equivalent figures together

£150 x 25	=	£3750
£3000 x 25	=	<u>£75000</u>
	=	**£78750**

Step 2 Multiply the figure from step 1 by the Class 1A NICs percentage rate

£78750 x 12.8% = £10080.00

Class 1A NICs due = £10080.00

11 When are Class 1A NICs due?

Class 1A NICs must be paid by 19 July following the end of the tax year. Class 1A NICs due for the 2004-2005 tax year are due by 19 July 2005.

Leaflet *Class 1A NICs on benefits in kind, CWG5,* provides detailed guidance on how Class 1A NICs are reported and paid.

12 Am I liable to pay Class 1A NICs on the cars I provide?

When employees are provided with company cars and fuel which are available for private use, they are usually taxed on these benefits under special income tax rules contained in Sections 114, 120 and 149 of ITEPA 2003.

As an employer, you may be liable to pay Class 1A NICs for

- **cars** provided by reason of an employee's employment to
  - directors
  - employees who are paid at a rate of £8500 or more a year, including taxable benefits and expenses

  if the car is available for private use by the director or employee, or by members of their family or household, and the benefit is chargeable on the director or employee to income tax under ITEPA 2003
- **fuel** provided for private use in those cars.

Part 2 of this guide tells you in what circumstances Class 1A NICs are not due on car and fuel benefits.

13 What is a car?

ITEPA 2003 Section 115(1)
A car is a mechanically propelled road vehicle, which is not

- a goods vehicle (a vehicle of a construction primarily suited for the conveyance of goods or burdens of any description, for example lorries and vans). Estate cars, and recreational 'off-road' vehicles rank as cars. With effect from 6 April 2002, vehicles commonly known as 'double cab pickups' are classified as cars or vans in line with their treatment for VAT by Customs and Excise. There is more information on the Revenue website at **www.inlandrevenue.gov.uk/cars/company_vans_info.htm**. There is no charge to the treatment of these vehicles in earlier years, or to the existing treatment of any other vehicles.
- a vehicle of a type not commonly used as a private vehicle and unsuitable to be so used, for example a Grand Prix racing car
- motorcycles and invalid carriages, as defined in the Road Traffic Act 1988.

Where a vehicle does not count as a car there will normally be a taxable benefit under the rules for

- assets placed at an employee's disposal (see chapter 6 of booklet 480)
- vans available for private use (see chapter 14 of booklet 480).

These taxable benefits are also included in the calculation of Class 1A NICs liability.

14 What is a company car?

ITEPA 2003 Section 114
For the purposes of this guide a company car is a car made available by an employer (including a car provided under a leasing arrangement), for the private use of a director or employee, or a member of his or her family or household.

Private use includes ordinary commuting journeys.

A car made available by a third party will also count as a company car if it is provided by reason of the employee's employment.

If you are unsure whether a car you provide to an employee is chargeable to tax and liable for Class 1A NICs you should contact the Employers' Helpline or ask your local Inland Revenue Enquiry Centre for advice.

15 Providing company cars and fuel

If you provide car and fuel benefits you will need to calculate their cash equivalents. How you do this is explained in Parts 3 and 4 of this guide.

You will need to add the cash equivalent of car and fuel benefits to the cash equivalents of other benefits you provided when calculating how much Class 1A NICs are due, see section 10 on page 4.

In the remainder of this guide the cash equivalent of providing a car and fuel for private use is referred to as the car benefit and the fuel benefit.

16 When are Class 1A NICs not payable?

In some cases no Class 1A NICs are payable in respect of a car or fuel used by your employee. You may have to pay Class 1A NICs, or in some cases, Class 1 NICs, on one but not the other.

You do not have to pay Class 1A NICs on

- cars and fuel provided to employees and certain directors who earn at a rate of less than £8500 per year – see leaflet CWG5 for more information
- directors' or employees' privately owned cars
- cars which are used exclusively for business and for which private use is prohibited
- pooled cars, see section 66
- cars provided to certain disabled directors or employees in particular circumstances, see section 74
- a car if the employee reimburses you for the private use of the car and the sum reimbursed equals or exceeds the car benefit, see section 52
- a car if it can be shown that the car was provided by an individual employer in the normal course of their domestic, family or personal relationship, see section 78
- fuel, if it is only made available for business use, but there may be Class 1 NICs liability, see the *Employer's Further Guide to PAYE and NICs, CWG2*
- fuel, if the director or employee is required to reimburse the **full cost** of the fuel supplied for private use and does so, see section 62.

Part 3 Working out the car benefit

17 Introduction

This section, including the examples, explains how the car benefit is worked out from 2003-2004 onwards.

If you need to work out Class 1A NICs on car and fuel benefits provided during the 1991-1992 to 2002-2003 tax years, contact your local Inland Revenue Enquiry Centre for advice or see earlier editions of this booklet.

The Car Benefit

18 How do I work out the car benefit?

ITEPA 2003 Section 121(1)
Car benefit is calculated in a series of numbered steps (more details start at the sections given).

1 Find the price of the car (see section 20)

2 Add the price of any accessories which fall to be taken into account (see section 26)

3 Make any required deduction for capital contributions by the employee (see section 34)

4 Take the lower of the amount carried forward from step 3 and £80,000 (see section 39)

5 Find the appropriate percentage for the car (see section 40)

6 Multiply the figure at step 4 by the appropriate percentage at step 5 (see section 48)

7 Make any required deduction for periods when the car was unavailable (see section 49)

8 Make any required deduction for payments by the employee for private use of the car (see section 52)

This method of calculation is modified in the case of:

- cars that run on road fuel gas (Steps 1, 2 and 5, see section 19)
- classic cars (those 15 years of age or more; steps 1 to 3, see section 36)

There are special rules for disabled drivers affecting Step 2 (see section 33) and Step 5 (see section 46)

Finally, the benefit so calculated may be reduced where the car is shared (see section 73).

The P11D Working Sheet 2 is available to help you work out the car benefit, which is the amount you record on an employee's P11D (or substitute) and is the amount on which Class 1A NICs are worked out.

An example of how car benefit is worked out is shown on page 19.

19 Cars which run on 'road fuel gas'

There are different rules for the three types of car under this heading:

1 Cars manufactured to run on road fuel gas which were first registered in 2000 or later and which have approved CO_2 emissions figures for gas and another fuel: adjustment at Step 5 for P11D type B cars, see section 45.

2 All other cars manufactured to run on road fuel gas: adjustments at Step 1 (see section 25) and Step 5 for P11D type C cars, see section 45.

3 Cars converted to run on road fuel gas: adjustments at Step 2 (see section 32) and Step 5 for P11D type C cars, see section 45.

'Road fuel gas' means any substance which is gaseous at a temperature of 15°C and under a pressure of 1013.25 millibars, and which is for use as fuel in road vehicles. The two types of road fuel gas currently in use are compressed natural gas (CNG) and liquid petroleum gas (LPG).

Step 1 : The price of the car

20 What is the 'price'?

ITEPA 2003 Sections 122 to 124
The price of a car means:

- its list price, if it has one, or
- its notional price, if it has no list price (see section 22).

21 What is the list price?

ITEPA 2003 Section 123
The list price is the inclusive price published by the manufacturer, importer or distributor of the car if sold singly in a retail sale in the open market in the UK on the day before the date of the car's first registration. It includes standard accessories, any relevant taxes (value added tax, car tax (where appropriate), any customs or excise duty, any tax chargeable as if it were a customs duty) and delivery charges, but this excludes the £25 new car registration fee because is an administration fee, not a tax. The list price is not the dealer's advertised price for the car, nor the price paid for the car, which may incorporate discounts or cashbacks from the list price.

22 What is a 'notional price' of a car?

ITEPA 2003 Section 124
The normal price is the list price. Only if there is no list price can the notional price be used.

The notional price of a car is the price which might reasonably have been expected to be its list price if its manufacturer, importer or distributor had published a price as the inclusive price appropriate for a sale of a car of the same kind sold singly in a retail sale in the open market in the UK on the day before the date of the car's first registration.

The notional price includes all accessories equivalent to the qualifying accessories (section 26) available with the relevant car at the time when it was first made available to the employee (i.e. all accessories which would otherwise be added at Step 2 as initial extra accessories, see section 29), and any relevant taxes (as in section 21).

23 Can I deduct a discount from the price of a car?

For car benefit purposes, the price of a car is the list price of a car which may not be what was paid for the car. No deduction can be made for any discount obtained on the purchase of a car.

24 What happens if I provide secondhand cars?

Second hand cars are dealt with in the same way as new cars. The list price is the price on the day before it was first registered, that is when it was new.

25 Cars manufactured to run on 'road fuel gas' (type (2) in section 19)

ITEPA 2003 Section 146
The price of the car found under Step 1 is reduced by so much of that price as it is reasonable to attribute to the car being manufactured in such a way as to be capable of running on road fuel gas rather than only on petrol. Normally, this means replacing the price of the car which can run on road fuel gas with the (lower) price of the petrol-only equivalent model.

Step 2 : Accessories

26 What is a 'qualifying accessory'?

ITEPA 2003 Section 125
A qualifying accessory is an accessory which

a is made available for use with the car without any transfer of the property in the accessory

b is made available by reason of the employee's employment

c is attached to the car (whether permanently or not).

Notes

- Condition **a** means that accessories which the employee owns are not included, for example where an employee buys his or her own in-car stereo system for use in the company car.
- Condition **c** means that only accessories which are attached to the car are qualifying accessories. A roof rack, for example, which can be removed from time to time will be a qualifying accessory if the other conditions are satisfied. But optional accessories such as car rugs, loose tools, maps and so on which are not attached to the car are not included.

27 What is the meaning of 'accessory'?

ITEPA 2003 Section 125(2)
'Accessory' includes any type of equipment, but does not include

a an accessory necessarily provided for use in the performance of the duties of the employment

b equipment by means of which a car is capable of running on road fuel gas (see section 32)

c equipment to enable a disabled person to use the car (see section 33)

d a mobile telephone

Condition **a** means that those accessories which are necessarily provided for use in the performance of duties of the employee's employment are not counted. An example would be a tow bar fitted as an option to a car because as part of the job the employee is required to tow a trailer carrying the equipment needed to carry out the duties of the job. The price of such a tow bar is disregarded at Step 2 and so it is not taxable as a benefit, whether or not any private use is made of it.

28 What are the rules for accessories?

Accessories are dealt with in three groups:

- initial extra accessories (those with the car when it is first made available to the employee, see section 29)
- later accessories (those added after the car was first made available to the employee, see section 30)
- replacement accessories (which can be replacements for accessories in either of the above groups, see section 31)

In all cases, the price includes any charge for delivering the accessory to the seller's place of business, value added tax and any fitting charges.

29 Initial extra accessories

ITEPA 2003 Sections 126(2) and 127(1)
The price of these is only added to a car with a list price (the notional price of the car at section 22 includes them).

An initial extra accessory is a non-standard accessory which is available with the car at the time when it is first made available to the employee.
The price of an initial extra accessory is:

a the list price published by the manufacturer, distributor or importer of the **car** for the day immediately before the date of the car's first registration, ITEPA 2003 Section 128

b if there is no such price, the list price published by the manufacturer, distributor or importer of the **accessory** at the time immediately before the accessory is first made available with the car, ITEPA 2003 Section 129, or

c if there is no list price of either kind, the notional price (the inclusive price it might reasonably have been expected to fetch at the time immediately before the accessory is first made available with the car), ITEPA 2003 Section 130.

The price of those in category **a** is added whether or not they are available with the car in the tax year in question. The price of those in categories **b** and **c** are added if they remain available with the car at any time in the tax year in question.

Both list and notional prices are for the accessory if sold singly in a retail sale in the open market in the UK and include any relevant taxes (see section 21) other than car tax.

30 Later accessories

ITEPA 2003 Sections 126(3) and 127(2)
The price of later accessories is added to all cars. The price is in either category (b) or (c) of section 29, as appropriate, and is calculated on the same basis.

A later accessory is one which was not available with the car at the time when it is first made available to the employee, but is available in the tax year in question. Later accessories are disregarded if added before 1 August 1993 or if the price does not exceed £100.

The lower limit of £100 means that inexpensive accessories which are made available during the period are not included in the benefit charge. However, a set of items should not be divided for this purpose - for example, a set of four alloy wheels with a total cost of £300 is not treated as four separate wheels each with an individual cost of £75.

If a later accessory is added part way through a tax year, its price is included at Step 2 for the whole year. There is no time-apportionment.

31 Replacement accessories

ITEPA 2003 Section 131
A replacement accessory is an accessory which replaces another qualifying accessory ('the old accessory') and is of the same kind as the old accessory. 'Kind' for this purpose depends on function: a radio/cassette player and a radio/CD player are not of the same kind because their function is different, whereas alloy wheels are of the same kind as steel wheels because their function is the same.

Where the replacement accessory is not superior to the old accessory, Step 2 operates as though the replacement had not been made. The price of the original accessory continues to be counted (even though it may have been removed in an earlier tax year) and the price of the replacement is ignored.

Where an accessory is replaced by a superior accessory, the price of the replacement accessory is added at Step 2 in the normal way but the price of a non-standard old accessory is disregarded (note that the price of a standard accessory counted at Step 1 is not disregarded).

32 Cost of converting a car in type (3) in section 19 to run on road fuel gases

ITEPA 2003 Section 125(2)(b)
The cost of equipment to enable a car to run on road fuel gas is not treated as an accessory and therefore the cost of conversion to run on road fuel gas is not added at Step 2.

33 Equipment for the disabled

ITEPA 2003 Section 172
Equipment to enable a disabled person to use the car is not counted as an accessory (and therefore its price is disregarded at Step 2) if it is either:

- designed solely for use by a chronically sick or disabled person (e.g. hand controls for people who are unable to operate ordinary pedal controls, or fittings to enable a wheelchair user to use the car), or
- if the employee holds a disabled person's (blue) badge at the time the car is first made available to them, other equipment which is made available for use with the car as a **non-standard** accessory because it enables the employee to use the car in spite of the disability which entitles them to the blue badge (e.g. optional power steering or electric windows on a car made available to an employee who would not be capable of operating it without them, but note that there is no reduction for such items if they are fitted as standard accessories because these are accounted for at Step 1).

Step 3 : Capital contributions

34 What is the effect of a 'capital contribution'?

ITEPA 2003 Section 132
The effect of Step 3 is to reduce the amount carried forward from Step 2 where the employee has contributed a capital sum, or capital sums, to expenditure on the provision of

- the car (Step 1), or
- any qualifying accessory (so long as it is taken into account at Step 2).

The amount to be deducted is the lesser of

- the total of the capital sums contributed by the employee in that and any earlier years to expenditure on the provision of the car or any qualifying accessory taken into account at Step 2, and
- £5,000.

Capital contributions are payments towards the cost of the car or qualifying accessories. They should not be confused with payments for private use of the car, see section 52.

35 For what years are the amount allowed?

ITEPA 2003 Section 132(2)
The deduction under section 34 is made for the year in which the contribution is made and all subsequent years in which the employee is chargeable to tax in respect of the car. Therefore if the car is transferred from one employee to another, the first employee's contributions are not taken into account in calculating the benefit of that car for the second employee.

Steps 1-3 : Changes for classic cars

36 What is a 'classic car'

ITEPA 2003 Section 147
Steps 1-3 are varied in the case of a classic car whose list price is low compared with its current value.
A classic car is

15 years old or more at the end of the year of assessment, **and**

- with a market value for the year of £15,000 or more, and
- that market value exceeds the amount carried forward from Step 3 above.

When all the above conditions are met, substitute the market value of the classic car for the year less any capital contribution for the amount otherwise carried forward from Step 3 above.

37 What is the market value?

The market value of a classic car is the price which it might reasonably have been expected to fetch on a sale in the open market on the last day in the tax year when it was available to the employee, on the assumption that any qualifying accessories available with the car on that day are included in the sale.

Market values of classic cars may be found in specialist publications, contemporaneous sale documents or insurance details for the car concerned. If a classic car is bought in a poor state of repair and is restored during the year, then it is the market value of the restored vehicle the last day in the tax year when it was available to the employee which is used, not the cost of the earlier purchase.

38 What about capital contributions towards classic cars?

The amount to be deducted is calculated in exactly the same way and with the same limit as for other cars (see section 34).

Example

Steps 1 to 3 for a classic car

A classic car is provided to an employee for private use. The market value of the car is £90,000 (its original list price was £10,000). The employee makes a capital contribution towards the cost of the car of £4000.

Step 1 price of the car under normal rules	£10,000
Step 2 accessories (all are non-superior replacements)	£0
	£10,000
Step 3 deduct capital contributions	(£4,000)
Figure carried forward from Step 3	**£6,000***

The car is over 15 years old at the end of the tax year and its market value is greater than the figure carried forward from Step 3, so it is a classic car. For the figure carried forward from Step 3, substitute

market value	£90,000
deduct capital contributions	(£4,000)
Figure carried forward from Step 3	**£86,000**

** But see section 39 regarding the price cap for expensive cars.*

Step 4 : Price cap for expensive cars

39 What is the price cap?

ITEPA 2003 Section 121(1)
The figure at Step 3 is restricted at Step 4 to an upper limit of £80,000. This applies to all cars, classic or otherwise.

Example

Steps 1 to 4 for a classic car

A classic car is provided to an employee for private use. The market value of the car is £90,000 (its original list price was £10,000). The employee makes a capital contribution towards the cost of the car of £4000.

Step 1 price of the car under normal rules	£10,000
Step 2 accessories (all are non-superior replacements)	£0
	£10,000
Step 3 deduct capital contributions	(£4,000)
Figure carried forward from Step 3	**£6,000**

The car is over 15 years old at the end of the tax year and its market value is greater than the figure carried forward from Step 3, so it is a classic car. For the figure carried forward from Step 3, substitute

market value	£90,000
deduct capital contributions	(£4,000)
Figure carried forward from Step 3	**£86,000**
Step 4 take the lower of the amount carried forward from Step 3 and £80,000.	
Therefore the amount to carry forward from Step 4	**£80,000**

Step 5 : The Appropriate Percentage

40 What is the approved CO_2 emissions figure?

ITEPA 2003 Sections 134 to 136
Cars registered in the United Kingdom (UK) and in other European Community countries must be submitted by their manufacturers or importers for a 'type approval' test. The level of CO_2 emitted by the car is one of the factors reviewed in the course of the test. The approved CO_2 emissions figure for car benefit purposes is that which is recorded on the type approval certificate summarising the results of the type approval testing procedure. The result of this test is available in various ways.

For cars first registered

- on or after 1 January 1998 **with** an approved CO_2 emissions figure, see sections 41 to 43 and 45
- on or after 1 January 1998 **without** an approved CO_2 emissions figure, see sections 44 and 45
- before 1 January 1998, see section 47 for **all** such cars.

Note: For car benefit purposes, the CO_2 emissions figure that applies at the date of first registration is set for the life of the car.

41 How do I find the approved CO_2 emissions figure?

For cars first registered in the UK from 1 March 2001, the approved CO_2 emissions figure is shown on the Vehicle Registration Document (V5).

For cars first registered in the UK between 1 January 1998 and 28 February 2001, the manufacturer should provide this information if asked to. Although manufacturers are entitled to charge a small fee, some manufacturers are happy to provide this information free of charge.

Under an agreement with the Inland Revenue, the Society of Motor Manufacturers and Traders (SMMT) provides a CO_2 enquiry service free of charge on the Internet - at **www.smmt.co.uk** - for cars first registered from January 1998 to February 2001. This service will help you to find the CO_2 emissions figure for a particular make and model of car. Single enquiries are free of charge. For multiple enquiries and those who require the whole database SMMT will make a charge. Details of costs are shown in the 'Fleet Contact Form' which can be accessed from the introduction page for the CO_2 database on SMMT's website.

Indicative CO_2 emissions figures for all new car models can be viewed on the Vehicle Certification Agency (VCA) website at **www.vca.gov.uk.** They are also available in a VCA booklet which can be obtained free of charge via its website or from:

Vehicle Certification Agency
1 The Eastgate Office Centre
Eastgate Road
Bristol
BS5 6XX
Telephone number **0117 951 5151**

The VCA figures relate to new cars currently on sale in the UK. You will not be able to use the Internet database to find the approved CO_2 emissions figure for a car sold as new two years ago.

42 What if the VCA and SMMT figures contradict each other?

The figures should normally be the same if they relate to the same car **and** the same year. But as the figures on the VCA website and in its booklet relate to new cars they may well be different to the figures on the SMMT website for cars first registered between January 1998 and February 2001. You should make sure that you refer to the source of information that is most appropriate for the age of the car in question. If you have retained a copy of the VCA booklet from an earlier year, remember that there is no need to check both databases once you have found the CO_2 figure for the right model of car and year. If you do happen to find a small discrepancy, then use the lower figure. If you find a larger discrepancy, then contact your Inland Revenue office for advice.

Remember, for cars registered 1 March 2001 and later the new car registration document (V5) will be the definitive source of the approved CO_2 emissions figure.

43 Cars with a CO_2 emissions figure first registered on or after 1 January 1998 only: ready reckoner

ITEPA 2003 Section 139

The ready reckoner below gives the appropriate percentages for a **petrol-powered** car for 2004-05 to 2006-07.
The exact CO_2 figure is rounded down to the next 5g/km for this purpose (i.e. for 188 use 185).
See overleaf for example.

CO_2 EMISSIONS IN GRAMS PER KILOMETRE	2004-05	2005-06 and 2006-07
140	15%	15%
145	15%	16%
150	16%	17%
155	17%	18%
160	18%	19%
165	19%	20%
170	20%	21%
175	21%	22%
180	22%	23%
185	23%	24%
190	24%	25%
195	25%	26%
200	26%	27%
205	27%	28%
210	28%	29%
215	29%	30%
220	30%	31%
225	31%	32%
230	32%	33%
235	33%	34%
240	34%	35%
245	35%	35%
250	35%	35%
255	35%	35%

This is subject to adjustments for cars powered by other fuels as shown at section 45.

Example

The appropriate percentage for a petrol car

- Price of the car is £15,000. Approved figure of CO_2 emissions is 173g/km.
- Round 173 down to 170.
- Look up percentage for 2004-05 in ready reckoner – 20%.
- No adjustments are required at (see section 45), so this is the appropriate percentage.
- The figure at Step 6 for 2004-05 is £15,000 x 20% = £3,000.

Appropriate percentage is 21% for 2005-06 and 2006-07.

44 Cars first registered on or after 1 January 1998 without an approved CO_2 emissions figure

ITEPA 2003 Section 140

The appropriate percentage for the very few cars with an internal combustion engine and one or more reciprocating pistons but without an approved CO_2 emissions figure is based on their engine size, as follows:

Cylinder capacity of car in cubic centimetres	Appropriate percentage
1,400 or less	15%
More than 1,400 but not more than 2,000	25%
More than 2,000	35%

If the car does not have an internal combustion engine with reciprocating pistons, the appropriate percentage is:

- 15% if it is propelled solely by electricity (e.g. by a battery)
- 35% in any other case (e.g. a car with a rotary Wankel engine)

This is subject to adjustments for cars powered by other fuels as shown at section 45.

45 Cars first registered on or after 1 January 1998: adjustments to the appropriate percentage

ITEPA 2003 Sections 137 and 141, SI 2001 No 1123

The following adjustments are made to the appropriate percentage obtained from sections 43 and 44.
See overleaf for example.

Type of fuel	P11D code	Standard adjustment	Extra adjustment	Other adjustments
Petrol	P	none	none	none
Diesel (car not Euro IV)	D	supplement: 3% (see note 1)	none	none
Diesel (Euro IV car - note 3)	L	cancel type D supplement, above	none	none
Electric only	E	reduction: 6%	none	none
Hybrid electric (note 4)	H	reduction: 2%	see note 2	none
Gas only	B	reduction: 1%	see note 2	none
Bi-fuel with CO_2 emissions figure for gas (note 5)	B	reduction: 1%	see note 2	use lowest CO_2 figure
Bi-fuel conversion, or other bi-fuel not within type B	C	reduction: 1%	none	none

Notes

1 Subject to the overall maximum appropriate percentage of 35%

2 Additional 1% reduction for every **full** 20g/km that the car's unrounded CO_2 emissions are below the lower threshold for the year (it is not possible to make this adjustment for cars in section 44)

3 Diesel cars approved to Euro IV emissions standards were first sold on the UK market in 2003. They must meet all of the following standards:

- carbon monoxide (CO) not exceeding 0.50 g/km
- nitrogen oxides (NOx) not exceeding 0.25 g/km
- hydrocarbons plus nitrogen oxides (HC+NOx) not exceeding 0.30 g/km
- particulate matter (PM) not exceeding 0.025 g/km

4 Hybrid electric cars have an internal combustion engine and a battery electric system capable of propelling the car. It should be clear from the vehicle's documentation if the car is a hybrid electric car.

5 Bi-fuel car first registered on or after 1 January 2000 with approved CO_2 emissions figures for both gas and petrol; these cars are type 1 in section 19.

Example

The appropriate percentage for a diesel car (but not one that meets Euro IV standards)

- Price of the car is £15,000. Approved figure of CO_2 emissions is 156g/km.
- Round 156 down to 155.
- Look up percentage for 2004-05 in ready reckoner – 17%.
- Add 3% diesel supplement (see section 45), so appropriate percentage is 20%.
- The figure at Step 6 for 2004-05 is £15,000 x 20% = £3,000.

Appropriate percentage is 21% (18+3) for 2005-06 and 2006-07.

Example

The appropriate percentage for a hybrid electric car

- Price of the car is £15,000. Approved figure of CO_2 emissions is 121 g/km.
- Round 121 down to 120.
- Look up percentage for 2004-05 in ready reckoner – 15% (CO_2 figure below lower threshold).
- Make the reductions required by section 45, 2% and a further 1% for each **full** 20g/ km that the CO_2 emissions figure is below the lower threshold for the year.
- Appropriate percentage is 12% (15% - 2% - further 1%) for 2003-04.
- The figure at Step 6 is £15,000 x 12% = £1,800.

Appropriate percentage for 2004-05 is 12% (15% - 2% - further 1%) and for 2005-06 is 13% (15% - 2% - no further reduction as the CO_2 emissions figure is only 19 g/km below the lower threshold for the year).

46 Cars first registered on or after 1 January 1998: reduction for disabled employees

ITEPA 2003 Section 138

If the only car that an employee who holds a disabled person's badge can drive is one with automatic transmission, the appropriate percentage is calculated using the approved CO_2 emissions figure of the closest manual equivalent, which is

- a car first registered at or about the same time as the automatic car, and
- which does not have automatic transmission, but otherwise is the closest variant available of the make and model of the automatic car.

47 The appropriate percentage for all cars first registered before 1 January 1998

ITEPA 2003 Section 142

The appropriate percentage for every car first registered before 1 January 1998 is based on its engine size, even if (exceptionally) it has an approved CO_2 emissions figure:

Cylinder capacity of car in cubic centimetres	Appropriate percentage
1,400 or less	15%
More than 1,400 but not more than 2,000	22%
More than 2,000	32%

If the car does not have an internal combustion engine with reciprocating pistons, the appropriate percentage is:

- 15% if it is propelled solely by electricity (e.g. by a battery)
- 32% in any other case (e.g. a car with a rotary Wankel engine)

Note that the adjustments in sections 45 and 46 do not apply to cars first registered before 1 January 1998.

STEP 6 : Calculating the car benefit charge for a full year

48 How do I calculate this?

ITEPA 2003 Section 121(1)
The cash equivalent of the benefit of the car for a full year is calculated by multiplying the figure from Step 4 (the price of the car and accessories) by the appropriate percentage from Step 5.

Step 7 : Reduction for periods when car unavailable

49 When is this reduction available?

ITEPA 2003 Section 143
When the car is unavailable for any part of the year, the figure carried forward from Step 6 is reduced in proportion to the number of days of unavailability.

50 What is the meaning of 'unavailable'?

ITEPA 2003 Section 143(2)
A car is treated as being 'unavailable' on any day if the day

- a falls before the first day on which the car is available to the employee, **or**
- b falls after the last day on which the car is available to the employee, **or**
- c falls within a period of 30 consecutive days or more throughout which the car is not available to the employee. Such a period can span two years.

51 Replacement cars

ITEPA 2003 Section 145
If the normal car is not available for a period of less than 30 days, there is no reduction because the car is not 'unavailable'.

If during that period the employee is provided with a replacement car, it is not also charged as a benefit if

- it is not materially better than the normal car, **or**
- it is not provided as part of an arrangement whose purpose was to provide the employee with a materially better car than the normal car. If these conditions are not satisfied the replacement car will be charged as a benefit. The calculation of the car benefit will need to take account of the replacement car's unavailablity in the normal way.

Examples

An employee commenced employment on 22 April and a car was made available for private use from that day. The period of unavailability was 6 April to 21 April inclusive, that is 16 days.

A different car was involved in an accident on 3 November. Between that date and 4 December the car was under repair in a garage. On 4 December the employee collected the car from the garage. The car was incapable of being used for a continuous period of 30 days, from 4 November to 3 December inclusive, so it was unavailable for that period. If the car had been repaired and ready for collection on 30 November, the car would only have been unavailable for 26 consecutive days and so would not be treated as unavailable for any part of this period.

Step 8 : Reduction for payments for private use

52 When is this reduction available?

ITEPA 2003 Section 144

Payments that an employee makes for the private use of the car are deducted from the figure carried forward from Step 7 and can reduce the benefit charge to nil.

To qualify as a deduction

- there must be a requirement in the year to make payments as a condition of the car being available for private use, and
- the payments must be specifically for that private use. Payments for supplies or services, such as petrol or insurance, do not count.

Any payments which the employee makes specifically for the private use of a replacement car as described in section 51 above are allowed as though they were payments for the private use of the normal car in that period.

If the payment(s) for private use reduce the benefit charge to nil no Class 1A NICs are due.

When an employee reimburses you from their salary, do not deduct the reimbursment from gross pay before calculating the Class 1 NICs and PAYE income tax.

Example

Working out the car benefit using all available reductions.

An employee is provided with a car on 1 May 2004 for business and private use. The car has a list price of £13000. It is supplied with automatic transmission and a sunroof as optional extras. These items have a list price of £800. The employee makes a capital contribution of £4000 towards the car and £200 towards the optional accessories. The employee also pays £50 per month for the private use of the car. CO_2 emissions are 195g/km.

Step 1 find the price of the car	£13000
Step 2 add the price of any accessories (£13000 + £800) =	£800 **£13800**
Step 3 make any required deductions for capital allowances (£13000 - £4200) =	£4200 **£9600**
Step 4 use the figure from Step 3 or £80000 - whichever is lowest	£9600
Step 5 find the appropriate percentage for the car - see Section 40	25%
Step 6 multiply Step 4 by Step 5 (£9600 x 25%) =	**£2400**
Step 7 make deduction for when car is unavailable. The car is unavailable 6 April to 30 April sum equals	25 days
$£2400 - (\frac{25}{365} \times £2400) =$	£2235 (rounded down)
Step 8 deduct payments by the employee for private use (11 x £50) =	£550
Car benefit =	**£1685**

53 What is 'business travel'?

ITEPA 2003 Section 171(1)

'Business travel' means travel for which expenses would qualify for deduction if they were incurred by the employee. Broadly, this means travelling expenses which involve two types of business journey:

- journeys which employees have to make in the performance of their duties, **and**
- journeys which employees make to or from a place they have to attend in the performance of their duties - but not journeys which are ordinary commuting or private travel.

Detailed guidance on the types of journey which give rise to qualifying travelling expenses is contained in booklet **490** *Employee Travel - A Tax and NICs Guide for Employers.*

Part 4 Working out the fuel benefit

54 Introduction

This section tells you what NICs are due if you provide fuel to your employees for use in a company car.
It also tells you how you work out the fuel benefit.

The guidance below relates to years from 2003-04. The basis of calculation in earlier years was different; see earlier editions of this booklet for details.

55 Methods of provision

The general rule is that whatever method you use, eg supply from your own pumps, credit card, voucher or reimbursement of your employees' fuel bills, to provide fuel for private use in a company car, Class 1A NICs will be due on that fuel.

56 Exceptions to this general rule

If you pay a round sum allowance, which bears no relation to the actual expenses incurred, you must include the allowance with the employee's gross pay and pay Class 1 NICs in the normal way.

If you pay a mileage allowance, a liability for Class 1 NICs may arise. Ask the Employers' Helpline how this is calculated.

57 What if I provide fuel for business use only?

Fuel supplied for business use only is not taken into account when calculating Class 1A NICs if

- none of the fuel was used for private purposes, or
- the fuel was used for private mileage but the employee reimbursed the full cost.

58 When is there a car fuel benefit charge?

ITEPA 2003 Section 149
Where fuel is provided for a car the benefit of which is taxed in accordance with Part 3 (referred to below as 'company cars' for short), a **car fuel benefit charge** will normally apply to tax the fuel provided in addition to the car benefit charge.

Accordingly a liability for Class 1A NICs may arise. The Class 1A NICs you have to pay will depend on

- whether the fuel is only supplied for business see section 57
- whether the employee has fully reimbursed the cost of the fuel used privately see section 62.

59 Calculating the car fuel benefit charge for a whole year

ITEPA 2003 Section 150
The car fuel benefit charge is calculated by multiplying two figures:

- a fixed sum (£14,400 for 2003-04 onwards), and
- the 'appropriate percentage' used to calculate the car benefit (see section 40 onwards).

There is **never** any need to calculate a new appropriate percentage for car fuel benefit. In every case, whether or not the car has an approved CO_2 emissions figure, the appropriate percentage used to calculate the car benefit charge is used to calculate the car fuel benefit charge.

Example

A car powered by petrol has CO_2 emissions of 185g/km, so the appropriate percentage used to calculate the car benefit charge for 2004-05 is 23%.

The 2004-05 fuel benefit charge is
14,400 x 23% = £3,312.

60 Reducing the charge: car unavailable

ITEPA 2003 Section 152(1)
The car fuel benefit charge is reduced proportionately for periods for which the car is unavailable (see section 49). The proportion by which the charge is reduced is the same for both car benefit and car fuel benefit.

61 Reduction because private fuel is withdrawn

ITEPA 2003 Section 152
The car fuel benefit charge is reduced if free fuel ceases to be provided to an employee during the tax year. However, if free fuel is received again later in the same tax year the car fuel benefit is not reduced.

62 Employee reimburses cost of fuel provided for private use

ITEPA 2003 Sections 151(2) and 152 (2)
If the employee reimburses the **full** cost of any fuel provided for private use, the fuel benefit charge is reduced to nil.

Partial reimbursement by the employee of the cost of fuel provided for private use does not reduce the fuel benefit charge.

If an employee is required to repay the cost of private fuel, they can

- pay a sum of money
  - directly, or
  - by deduction from pay, or
- replace the fuel used for private mileage by an equal amount of fuel purchased by them.

When an employee reimburses you from their salary, **do not** deduct the reimbursement from gross pay before calculating the Class 1 NICs and PAYE income tax.

Example

Partial reimbursement

An employee is provided with fuel costing £2,000 for the company car in the example at section 62. The employee reimburses the company by £1,000.

As the employee has failed to fully make good the cost of the private fuel, the car fuel benefit charge still applies and Class 1A NICs are due on the full amount of the charge, £3,312.

63 Providing fuel for use in an employee's privately owned car

Class 1A NICs may be due if you provide fuel, for example from your own fuel pump or by means of a garage or agency fuel card, for use in an employee's own car. See leaflet *Class 1A NICs on benefits in kind, CWG5,* for further information.

64 Introduction

This section deals with some less common situations and some cases where there may be no liability for Class 1A NICs on car and fuel benefits.

Employees going and coming from abroad

65 General

Some employers provide cars to employees who are required to work abroad. These cars may be

- provided to employees whilst they are abroad
- left behind for their use once they return
- available to family members whilst they are abroad.

For employees going to, or coming from, abroad who are provided with company cars, two factors determine whether there is a Class 1A NICs liability. For Class 1A NICs liability to arise

- the benefit of the car must be **chargeable** to income tax under ITEPA 2003, even though tax may not actually be paid, and
- there must be liability for employer's Class 1 NICs for any part of the tax year in which the car was provided for private use. In some cases a liability for Class 1 NICs may arise for only a proportion of a tax year because of the 52 week liabilty period for people working abroad. Guidance on Class 1 NICs for people working abroad is given in leaflet *NI for Employers of People Working Abroad, NI132.*

If you are unsure whether an employee, who either comes from or goes abroad, is chargeable to income tax on the provision of a car which is available for private use, please contact your local Inland Revenue Enquiry Centre.

If you are unsure whether you are liable to pay employer Class 1 NICs on earnings paid to the employee or the period for which there is liability to pay Class 1A NICs, contact the Employers' Helpline.

Once you have established that a liability for Class 1A NICs arises, the calculation is the same as for any other car.

Liability for Class 1A NICs ceases if liability for Class 1 NICs also ceases. For any such period, the car is treated as being unavailable and you can apply the appropriate adjustment to the amount of Class 1A NICs due.

If Class 1A NICs are due for a car provided to an employee who has come from, or is going, abroad you will need to keep the same records as you would for any other car. You may also need to keep a note of the relevant exchange rates, so that you can determine the correct amount of Class 1A NICs due.

Pooled Car
ITEPA 2003 Section 167

66 General

There is no tax charge on the benefit of a car if it is a pooled car, used only by employees. Similarly, there is no liability to pay Class 1A NICs for that car or for fuel supplied for that car. There may, however, be a liability for Class 1 NICs if a lump sum or mileage allowance is paid, see the *Employer's Further Guide to PAYE and NICs, CWG2.*

67 Conditions

A car only qualifies as a pooled car if **all** of these conditions are satisfied:

a it is made available to, and actually used by, more than one employee

b it is made available, in the case of each of those employees, by reason of their employment

c it is not ordinarily used by one of them to the exclusion of the others,

d any private use by any employee is merely incidental to their business use of it, **and**

e it is not normally kept overnight on or near the residence of any of the employees unless it is kept on premises occupied by the provider of the car.

The reference to employees above means any employee irrespective of the level of earnings.

68 Meaning of "merely incidental"

ITEPA 2003 Section 167(3)(d)

The expression '**merely incidental to**' imposes a qualitative rather than a quantitative test. The use of a car for what is primarily a business journey but embracing some limited private use would be within the terms of **b** in section 67 above. A simple example might be where an employee who is required to undertake a long business journey is allowed to take a **pool car** home the previous night in readiness for an early morning start. The **office to home** journey although private is, in this particular context, subordinate to the lengthy business trip the following day and is undertaken to further the business trip. In short, it is **merely incidental to** the business use of the car on that occasion. A reservation is necessary in this type of case: if it happened too often, condition **e** in section 67 above would not be met.

69 Meaning of 'not normally kept overnight'

ITEPA 2003 Section 167(3)(e)
It is accepted that a car is **not normally kept overnight** at or near the homes of employees if the number of occasions on which it is taken home by employees does not amount to more than 60% of the year. But where a car is garaged at employees' homes on a large number of occasions, although for less than 60% of the year, it is unlikely that all the home to work journeys would satisfy the '**merely incidental to**' test in section 68.

70 Inadequate parking facilities etc.

All five conditions at section 67 must be satisfied if the car is to qualify for exemption as a pooled car.

So a car which met the four tests at **a** to **d** in section 67, but which was normally taken home at night by an employee because of inadequate parking facilities at the employer's premises, would fail test **e** in section 67 and would thus not count as a **pooled car.**

71 Car fails any of the conditions for a pooled car

If a car fails any of the conditions for being a pooled car, it may be regarded as a shared car.

Shared cars
SS(C)R 2001 Reg 36

72 General

A shared car can be:

1 a car made available for concurrent use by two or more employees by reason of their employment and available for private use by both, or

2 a car which is made available for private use to one employee by reason of two or more employed earners' employments with the same or different employers.

For **1**, a Class 1A NIC liability will arise in respect of each employee.

For **2**, each employment attracts a Class 1A NIC liability. If the two employments are with the same employer, the calculation will need to take into account any differences in the employee's conditions of employment in the separate employments.

73 Working out Class 1A NICs for a shared car

For the whole of the 2004-2005 tax year, a car with a price of £15000 is made available to two employees to share.

When working out the car benefit for Class 1A NICs purposes in shared car situations, ignore sharers who are

- employees, other than directors, who are remunerated at a rate of less than £8500 a year including taxable benefits and taxable expenses
- "employee directors" who fall into the above category.

The following explains the general principles involved but they will not all apply in all cases.

Step 1
Work out the car benefit for the car as if each employee who shares it had the sole use of the car.

Step 2
The amount of Class 1A NICs can be adjusted after action as in step 1 where

- an employee has two or more employment's with the same or different employers, or
- two or more employees by reason of their respective employment's share the car.

The amount of Class 1A NICs due is calculated by dividing the figures at step 1 by the appropriate number of employments or employees.
See example below.

Example

One car shared by two employees for the whole tax year.

A car in 2004-05 with a price of £15000 is available to two employees to share for the whole tax year. No fuel is provided for private use. CO_2 emissions are 163g/km.

Step 1
Calculate the car benefit for each car as if each employee had the sole use of it

Employee A

18% x £15000 = £2700

Employee B

18% x £15000 = £2700

Step 2
Adjust the amount of Class 1A NICs due for each sharer by dividing the total by the number of sharers involved

Employee A

£2700 x 12.8% = £345.60

£345.60/2 = £172.80

Employee B

£2700 x 12.8% = £345.60

£345.60/2 = £172.80

Disabled drivers
SS(C) R 2001 Reg 38

74 General

Home to work travel is normally regarded as private mileage but there are different rules if cars are provided to disabled drivers.

75 Cars provided to disabled drivers

Class 1A NICs are not payable on cars provided to disabled drivers if the following conditions are satisfied

1 the car is provided to assist the disabled driver in travelling between their home and place of work

2 no other private use of the car is permitted or takes place.

76 Private use of a car provided to a disabled driver

If a disabled driver, or a member of their family or household, makes additional private use of a car, with or without your permission, Class 1A NICs will be due.

77 Converting a car for use by disabled drivers

Accessories which are designed specifically for use by disabled drivers, or added at extra cost to adapt a car for use by disabled drivers, such as a modified steering wheel, are excluded from the price of a car when calculating the car's price.

Accessories which are not specifically designed for disabled drivers but are provided to those disabled drivers who hold a disabled person's badge (blue badge holder) are also excluded.

These further accessories are excluded if

- the disabled driver held the blue badge at the time the car was first made available, and
- they are provided because they enable the employee to use the car in spite of the disability.

Examples such as automatic transmission and electric windows provided to blue badge holders would qualify for this exception, provided they are not standard accessories.

Family or household members

78 Cars provided to a family or household member

The general rule is that if a car is made available to a member of an employee's family or household, it is deemed to be made available by reason of that employee's employment. The family or household member is considered to have received the car because they are connected with the employee, whether or not the same employer employs both.

However, if an employer employs their child and provides a car in their capacity as a parent, Class 1A NICs will not be due. Facts to support such a claim would be that the car had not been treated as a business asset and that no expenses or capital depreciation allowance relating to the car have been allowed as deductions in computing the parents' profits for tax and NIC purposes.

ITEPA 2003 Section 721(4)(5)
Unless specified otherwise, members of an employee's family or household include the employee's

- spouse
- sons, daughters, and their spouses
- parents
- servants
- dependants
- guests.

If you are unsure if a person is classed as a family or household member, please contact your nearest Inland Revenue Enquiry Centre or the Employers' Helpline for advice.

79 Exception to the family member rule

If a car is provided to an employee (employee **A**) by reason of their own employment and that employee is a member of the family or household of another employee (employee **B**), who is also employed by the same employer, liability for Class 1A NICs will arise in respect of employee **B** for employee **A**'s car, unless

ITEPA 2003 Section 169

- there is already liability for Class 1A NICs in respect of employee **A** because they are either a director or an employee earning at a rate of £8500 or more a year including taxable benefits and taxable expenses
- there is no liability in respect of employee **A** because they are neither a director nor employee earning at a rate of £8500 or more a year, and
  - **a** equivalent cars are made available on the same terms, to other employees in similar employments with the same employer, who are not related to the directors and those earning at a rate of £8500 or more, or
  - **b** the provision of an equivalent car is in accordance with the normal commercial practice for a job of that kind.

Example

A company with a sole director also employs the director's wife. The wife is not a director and is paid at a rate below £8500. Both are provided with cars. There is no liability for the wife because she is neither a director nor an employee earning at a rate of £8500, including taxable benefits and expenses.

There is a Class 1A NIC liability for both cars for the director. The car benefit should be calculated on each car independently under the normal rules.

80 Car provided by a third party

SSCBA 1992 Section 10ZA

If a car is made available by someone other than the employee's employer for private use by an employee or member of their family or household because of the employee's employment, any Class 1A NICs are payable by

- the employee's employer, if he has arranged for the employee to be provided with the car
- the third party in all other cases.

See leaflet *Class 1A NICs on benefits in kind, CWG5,* for further information.

81 More than one car provided

Working out the car benefit for two or more cars provided concurrently

Where two or more cars are provided to an employee concurrently, each car must be treated individually.

Example

Two cars are made available to the same employee concurrently throughout the 2004-2005 tax year. Car A has a list price of £15,000 and has CO_2 emissions of 195g/km. Car B has a list price of £13,000 and CO_2 emissions of 185g/km. The employee makes a capital contribution of £3000 and makes payments for private use of £50 per month in respect of Car B.

To work out the benefit of car A

Work out the full car benefit

25% of £15,000 = £3750

Car benefit for car A = £3750

To work out the benefit of car B

Step 1 price of the car	£13,000
Step 3 capital contributions	(£3,000)
Step 4 price after adjustments	£10,000
Step 5 appropriate percentage	23%
Step 6 car benefit for the year	£2,300
Step 8 payments for private use	£600
Car benefit for car B =	**£ 1,700**

Working out the car benefit for two or more cars provided consecutively

Where two cars are provided consecutively the benefit chargeable in respect of each car will depend on the length of time each car was unavailable to the employee. They are treated as separate cars with the relevant reductions applied to each car.

82 Cash alternatives to company cars

Where a car is provided to an employee under a cash alternative scheme, the benefit of the car is taxed under the special rules relating to company cars.

NICs are due on what the employee actually receives. That is

- Class 1A NICs, if they have the benefit of the car
- Class 1 NICs, if they take the cash.

83 Motoring expenses associated with company cars

SS(C) R 2001, Paragraph 7, Part VIII, Schedule 3

No NICs, other than Class 1A NICs on the car benefit, are due on motoring costs you pay in connection with a company car. This does not include mobile phones and chauffeurs.

84 Leased cars

Liability for Class 1A NICs depends on who is involved in leasing the car.

- If a car is leased by the employer and available to the employee or director, Class 1A NIC liability arises, or
- If the arrangement for leasing the car is made by the employer, for example the employer negotiates a deal on behalf of the employee or director, Class 1A NIC liability may arise.

If the employee or director makes an independent arrangement to lease the car, there is no Class 1A NIC liability, although there may be Class 1 NIC liability if the employer pays the leasing costs.

85 Other car records

You will need to keep details of the

- price of the car
- car's date of first registration
- the date the car was provided
- car's engine size, if fuel is provided for private use, and
- type of fuel used (petrol, diesel, road fuel gas etc).

You will also need to keep details of

- periods when a car is unavailable for private use
- any payments made to you by employees and directors for use of the car or fuel used on private journeys.

86 Incomplete or non-existent records

The action you need to take if your records are incomplete or non-existent will depend on what records are missing.

If you do not know the period of unavailability
You cannot make any reduction to the car benefit for unavailability if you have no record of the period(s) that the car was unavailable.

This leaflet gives general guidance only and should not be treated as a complete and authoritative statement of the law.

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