Cars, Loans & Capital Contributions

A Tax-efficient Mix

The tax and NI payable on company cars is already high and is set to increase for each of the next few years and probably longer. How can you use a simple arrangement to make a company car more tax efficient?

Company Car Tax

As you probably know, the amount on which you'll be taxed for having a company car as a perk depends on the manufacturer's list price and its CO_2 emissions. The more expensive the car and the higher its emissions, the larger the tax and NI bill. Ironically it's at the higher end of the scale that a simple tax-saving scheme works best. The following examples show how.

Example - no scheme. Bill is a director of Acom and for 2017/18 has use of a company car with a list price of £30,000 and CO_2 emissions of 180g/km. The taxable amount is 35% of the list price, i.e. £10,500. Because Bill is a higher rate taxpayer he'll pay £4,200 (£10,500 x 40%) in tax. Acom has to pay Class 1A NI of £1,863 (£10,500 x 13.8%). This means that, ignoring any increases in the taxable amount, over three years the total tax and NI cost is £18,169 ((£4,200 + £1,863) x 3).

Capital Contribution

The taxable amount can be reduced where the director or employee contributes to the cost of a car. The contribution is knocked off the list price before applying the percentage charge according to the CO_2 emissions. The maximum contribution that can reduce the tax charge is £5,000.

Example - with contribution. Taking the facts from the example above, but assuming a contribution to the cost of the car of £5,000, the tax and NI costs are reduced over three years by £2,825 (£5,000 x 35% x (40% + 13.8%) x 3 years). The trouble is Bill will have to find £5,000 to contribute, and if the car depreciates by, say, 50% over the three years he has use of it, his contribution will depreciate by the same proportion. That means he'll only get £2,500 of his contribution back. Most of the tax saving (£2,825) is wiped out.

Tip - Acom can improve the position by lending Bill £5,000 to make the contribution. After three years it keeps the £2,500 contribution that otherwise would be repayable to Bill to cover part of the money it lent him. It also writes off the remainder of the loan. While the write off is taxable, the overall position is a tax and NI saving.

Example - with contribution and loan. Assuming the same facts as the prevous example, but Acom lends Bill £5,000 to make the capital contribution and writes off the balance of the loan after three years. The revised tax and NI position is: savings achieved from the contribution £2,825 (see above); less the tax and NI payable on the £2,500 loan written off, i.e. tax at 40%, Bill's NI at 2% and Acom's at 13.8%, giving £1,395 and leaving net savings achieved by Bill and Acom together of £1,430 (£2,825 - £1,395).

Other Factors

Because Bill is a director Acom will have to pay a temporary tax charge of 32.5% on the £5,000 loan until it's repaid or written off. This means it will be out of pocket by £1,625 for three years. This is unlikely to make a significant dent in the tax and NI savings made. The scheme works for high list price/CO_2emission cars, but might not at the other end of the scale. So crunch the numbers before going ahead.

Your company can lend up to £5,000 to a director/employee, who then uses it towards the cost of a company car.
This reduces the tax and NI bill on the car even where the loan is written off after say, three years.
For example, it could save £1,430 for a car costing £30,000 with CO_2 emissions of 180g/km.