A G KELLY LTD

CHARTERED CERTIFIED ACCOUNTANTS

CLIENT BULLETIN

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TAX EFFICIENT MOTORING

Running a car is a significant expense, so where there is a choice of vehicles, or a choice between buying a car yourself, or buying it through your company, it is always worth keeping the tax consequences in mind. Here the bad news is that the rules are always changing – but the good news is that the changes tend to be announced years in advance, so at least it is possible to plan sensibly.

Capital allowances

The starting point is that a self-employed person can claim capital allowances on a car used for business purposes, and a company can claim the same allowances for a car provided for the use of a director or employee. However, if a director or employee uses his own car for business purposes, he can only claim a set mileage allowance.

The rate of writing-down allowance is 18% a year if the car was bought before April 2009 **or** has an emission rating of 160 g/km or less, and 8% otherwise. Cars purchased from April 2013 will not qualify for the higher rate of writing-down allowance unless they have an emission rating of 130 g/km or less.

A quirk of the legislation is that it is generally possible to claim an allowance for the difference between tax written down value and the sale proceeds when a self-employed person sells his car, but a company must usually continue to claim at 18% or 8% a year.

The exception (there's always an exception!) is that a 100% first-year allowance – an immediate write-off of the full cost – is available for 'Qualifying Low Emission Cars' (QUALECs). Currently, a car is a QUALEC if it has an emissions rating not exceeding 110 g/km, but this will be reduced to 94 g/km in April 2013.

Benefit-in-kind charges

If a company provides a car for a director or employee, he or she will have to pay an annual benefit-in-kind charge. This charge is calculated as a percentage of the list price of the car when new, generally within the range 10% to 35%, depending on the emissions rating of the vehicle. However, it has already been announced that the charge will rise by one percentage point in April 2013; another percentage point in April 2014; two percentage points in April 2015; and a further two percentage points in 2016 – a total of six percentage points, but capped at a maximum charge of 37%.

Petrol or diesel provided for private motoring

There is a further charge if the company pays for fuel used for private motoring (which includes, for tax purposes, home to work mileage). Generally speaking, because there is a flat charge irrespective of the number of miles covered, having the company pay for fuel for private motoring is very tax-inefficient unless there is a high private mileage (business mileage is irrelevant).

Low emission cars

At present, there is no benefit-in-kind charge for the use of a zero emission (battery-powered) company car and a very low charge (based on 5% of the original list price) for cars with an emission rating not exceeding 75 g/km. However, both these groups will be subject to a 13% charge from April 2015 and 15% from April 2016. If you are considering buying a low emission car which you intend to keep for more than say three years, this may well affect the decision whether to buy the car through your company, or in your own name.

So what's to do?

For self-employed people there are really two points to watch. The first is that a car bought now will qualify for a higher rate of writing-down allowances if its emissions rating does not exceed 160 g/km. For cars bought on or after 6 April 2013, that ceiling will fall to 130 g/km.

Secondly, and contra-intuitively, it will usually be better to ensure that there is some private use of the vehicle. If there is some private use, the car will be a stand-alone asset for capital allowance purposes, so that when it is sold, the difference between its tax written down value and the sale proceeds can be claimed as a balancing allowance. If there is no private use, the car will be 'pooled' with other business assets for tax purposes and the 'pool' as a whole will continue to be written down at 18% or 8% a year.

For a shareholder-director, the decision whether to buy a car in his own name, or through the company, is so complex that it is impossible to give any meaningful general guidance. Matters to be taken into account include the kind of car the director intends to buy, likely business and private mileage, the director's personal circumstances and the company's financial situation. We would of course always be happy to explore the options and crunch some numbers for you.

And finally - a VAT trap

There is a potential VAT trap wherever a trader (or a company) has adopted the VAT Flat Rate Scheme. Usually, input tax cannot be reclaimed on the purchase of a car but equally, tax does not have to be charged when the vehicle is sold on. (This is subject to special rules for driving school cars, *etc*.)

However, where a trader is using Flat Rate Accounting, even though no input tax could be reclaimed when he bought the car, when he sells the vehicle he has to include the sale proceeds in his flat rate turnover, and so pay VAT on the money received. The solution is simple: Make sure you leave the Flat Rate Scheme before you sell the car!

TAX CREDITS FOR SELF-EMPLOYED PEOPLE

As you have probably heard, the Government is introducing a new 'Universal Credit' to replace both unemployment benefits and Tax Credits. One effect will be to make it more difficult for self-employed people to claim any Credit, and in many cases to reduce the amount they are able to claim.

Universal Credit is designed to respond to changes in earnings on a month-by-month basis – thus the benefit paid in (say) May will depend on the amount earned in April. For people in employment, this will be achieved by requiring employers to make monthly PAYE Returns, under a new system called 'Real Time Information' or RTI. To claim Universal Credit, self-employed people will similarly be required to make a monthly declaration of their earnings and business expenses.

The monthly earnings declaration

Self-employed people will have to make their monthly earnings declarations, not for calendar or PAYE months, but for monthly 'assessment periods' beginning with their first claim to Universal Credit. Thus if the first claim was made on 17 June, the monthly 'assessment periods' will be the month to the 16th day of each subsequent month.

If the monthly earnings declaration is not made within seven days of the end of the assessment period (so by 23 July, if the assessment period is the month to 16 July), payment of benefit will be suspended. If the declaration is not made within four weeks of the end of the assessment period, benefit for that month will be lost altogether. In all cases, the declaration will have to be made online.

The declaration will have to be made on a 'money received and money paid' basis. 'Money received' will include the proceeds of selling capital assets (for example, a van used in the business). Allowable expenses (which may include the cost of capital assets) will have to be itemised under seven headings. Because Universal Credit will be calculated on net (after-tax) income, payments of income tax and National Insurance contributions will also count as allowable expenses.

So far, so good (apart from the very tight timetable for filing the monthly figures), but if payments out exceed payments in, earnings for the month will be taken as zero and it will not be possible to carry the balance of expenditure over income forward to the next month. There are many reasons why expenditure may exceed income – for example:

- A client may pay erratically, so that no fee is received one month, but two months' fees are received the next
- The six-monthly payment of income tax and Class 4 National Insurance contributions due in January or July may exceed the receipts for that month
- A van or other expensive piece of equipment may be purchased

– so the 'no carry forward rule' is very likely to lead to the trader's income, as calculated for Universal Credit purposes, being substantially higher than his real profit.

There will also be a rule that no allowance can be claimed for the cost of a motor car used in the business (though whether this will apply where 'the car is the business' – for example a taxi or a driving school car – is not yet clear). Instead, the trader will be able to claim either the appropriate proportion of the running expenses or a mileage allowance calculated at 45p a mile for the first 800 miles a month and 25p a mile thereafter.

Unprofitable businesses: no help in hard times

The Government is very concerned that people may claim to be self-employed as a gateway to claiming Universal Credit. Accordingly, self-employed claimants will be interviewed and expected to produce evidence that they really are trading.

They will also be deemed to earn a minimum amount, likely to be 35 hours a week at the National Minimum Wage. This will be waived for the first year of a new business, but for this purpose, a claimant will be allowed only one new business in his lifetime.

No Universal Credit for those with savings or capital

For Tax Credits, interest or other income from savings is taken into account, but there is no absolute bar on people with substantial savings claiming Tax Credits. However, for Universal Credit, the general Social Security benefits rule will apply, that no Credit will be paid if the claimant (together with his/her partner, if he/she has one) has savings of more than £16,000. However, the value of pension plans and life assurance policies will be left out of account.

No Universal Credit for older people

People old enough to qualify for Pension Credit – basically both men and women who have reached State Pension age for women – will not be entitled to Universal Credit (even if they are still working and could, currently, qualify for Tax Credits). However, a couple will qualify if either is too young to qualify for Pension Credit.

At last – the good news

After all that bad news, we should mention two changes which may help both employed and self-employed claimants. First, under the current rules, the claimant may, in calculating his income for Tax Credit purposes, deduct half of any contribution paid to a personal pension scheme. Under Universal Credit, the claimant will be able to deduct the whole of his contribution to a personal pension scheme.

Second, under the current Tax Credit rules, help with childcare costs is available only to parents who work at least 16 hours a week. Under Universal Credit there will be no minimum working time requirement, so that (for example) a single parent who is able to work just a few hours a week will be able to claim help with childcare costs.

When does it all happen?

Universal Credit will be launched in October 2013 but at first will cover only unemployment benefit claimants. Then from April 2014, no new claims to Tax Credits will be possible – people will have to claim Universal Credit instead. Existing Tax Credit claimants will be switched to Universal Credit between April 2014 and October 2017.

This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.