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Tax and electric vehicles

Company cars usually come with a hefty benefit in kind charge, which can often mean that they are not very tax efficient for both the employer and especially the employee. However, switching to an electric vehicle became an attractive proposition following reform of the company car tax rules in April 2020. Whilst still attractive, the tax regime for electric vehicles has become less generous from April 2026, with benefit in kind rates increasing from previous levels.

Electric company cars

Vehicle Excise Duty (VED)

Since April 2025, electric cars are no longer exempt from VED. Electric cars registered between 1 April 2017 and 31 March 2025 pay VED at the standard annual rate. For 2026/27, this standard rate is £200 per year.

Electric cars registered on or after 1 April 2025 pay the lowest first-year rate in the year of acquisition, which is frozen at £10 until 2029/30, before moving to the standard rate from the second year.

Expensive Car Supplement

Expensive zero-emission cars became liable to the VED Expensive Car Supplement from April 2025. From 1 April 2026, the supplement threshold for zero-emission cars increased from £40,000 to £50,000. The annual surcharge is £425 and applies for five years, from the second to the sixth year after first registration, where the vehicle's list price exceeds the relevant threshold.

Electric Vehicle Excise Duty (eVED)

From April 2028, the government intends to introduce Electric Vehicle Excise Duty (eVED), a new mileage-based charge for electric cars and plug-in hybrid cars.

Under the proposed scheme, motorists will pay a per-mile charge in addition to the existing VED. Battery electric cars will be charged 3p per mile, while plug-in hybrid cars will be charged 1.5p per mile.

Taxable benefit in kind

Electric cars are subject to tax as a benefit in kind if they are to be run as a company car.

Benefit in kind tax rates are published in advance to enable businesses to plan their future investment in company vehicles. Company cars are categorised into a series of benefit in kind bands, based on the vehicle's fuel or energy type, CO2 rating and the list price (including optional extras, VAT and delivery charges).

For the avoidance of doubt, the list price of an electric car includes the cost of the battery even if this is acquired or provided separately.

The taxable benefit in kind value for a company car is based upon:

+ The manufacturer's list price + the cost of optional extras;
+ Multiplied by a factor expressed as a percentage and usually determined by the car's CO2 emissions;
+ For fully electric cars, the taxable benefit in kind rate was 3% in 2025/26 and is 4% in 2026/27; and
+ The rate is scheduled to rise to 5% in 2027/28, 7% in 2028/29 and 9% in 2029/30.

Charging points for electric cars

There is no benefit in kind charge for the company to install a charging point at the employee's home, provided it is used for electric cars only. If the electricity is provided by the employer there is no taxable benefit. HMRC have also agreed with the tax profession that electricity is not a fuel for the purposes of the benefit in kind rules. This means that employers can reimburse, tax free, the cost of charging a company car at the employee's home via the domestic electricity supply, irrespective of the business and private use of the car. It does however require the employee to produce a report from their charger to precisely identify the costs of charging the car.

Workplace Charging Scheme vouchers are available to obtain a discount on buying and installing electric vehicle charge points at a workplace.

Click here for further details on applying for an electric vehicle charge point discount.

Hybrids

There are a range of factors for hybrid cars with CO2 emissions of 50g/km or less. These are based on the car's electric range (in miles).

The applicable percentage factors are as follows:

Electric range (miles)	Tax Year 2025/26	Tax Year 2026/27	Tax Year 2027/28	Tax Year 2028/29	Tax Year 2029/30
130+	3%	4%	5%	18%	19%
70-129	6%	7%	8%	18%	19%
40-69	9%	10%	11%	18%	19%
30-39	13%	14%	15%	18%	19%
<30	15%	16%	17%	18%	19%

For both electric and hybrid cars, no benefit in kind arises if the employee charges their car at or near their place of work provided certain conditions are met.

Salary sacrifice

It is generally the case that an employee is taxed on the greater of the amount of salary sacrificed and the taxable value of the benefit in kind. However, these rules do not apply to ultra-low emissions vehicles (vehicles which emit 50g/km CO2 or less, which will include all pure-electric cars and some plug-in and conventional hybrids).

Therefore, the provision of ultra-low emission cars under salary sacrifice arrangements may be attractive to both employees and employers.

For the employer

As well as the potential tax savings available under a salary sacrifice scheme, as mentioned above, zero emissions cars purchased before 31 March 2027 (companies) or 5 April 2027 (non-corporate businesses) will qualify for 100% first year capital allowances.

+ To qualify for 100% first year allowances, the car must be unused and not second hand;
+ An electric company car acquired second hand would qualify for capital allowances in the main pool with an 18% writing down allowance;
+ The company will also be able to claim capital allowances on the cost of installing a charge point at the employee's home as well as at the business premises;
+ The 100% First Year Allowance is also available for vehicle charge points purchased before 31 March 2027; and
+ The reduction in the value of the taxable benefit in kind for employees also means that the employer will have a reduced Class 1A National Insurance liability.

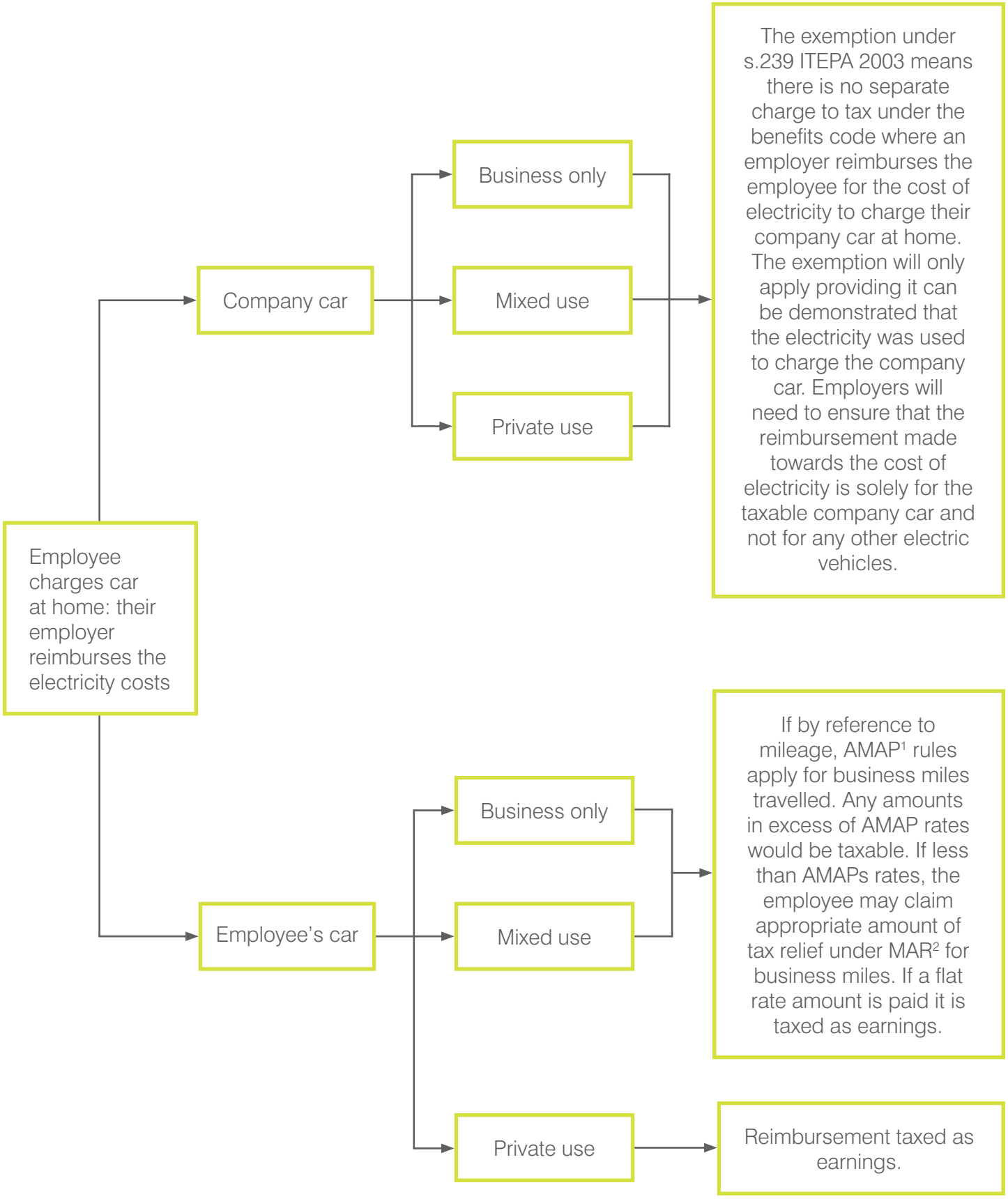
Electric company vans

Historically, the taxable benefit in kind for electric company vans was not as favourable as for electric company cars.

+ There was a big change for the 2021/22 tax year onwards with the taxable benefit for a zero-emission company van being reduced to nil.
+ This compares with a flat-rate benefit in kind for non-electric or hybrid company vans of £4,020 for 2025/26 and 2026/27, with the charge increasing in line with CPI in subsequent tax years.
+ As with electric cars, if the employee pays to charge an electric company van, the employer can reimburse the employee for the cost of charging the van provided the costs can be precisely identified.
+ For expenditure incurred on vans from 1 April 2023, 100% capital allowances is available in the form of the 100% full expensing first year allowance for companies (and as a 100% Annual Investment Allowance for non-corporate businesses).
+ The nil taxable benefit in kind along with the 100% capital allowances will make the zero emissions company van an attractive option as the range of vehicles on the market increases.

It should be noted that, unlike with company cars, a company van does not give rise to a taxable benefit if the private use of the van is insignificant. Examples of insignificant use given in HMRC's guidance include making a slight detour to drop off a child at school or stopping at a newsagent on the way to work. Examples of use which are not insignificant include using the van for social activities or for doing the weekly supermarket shop.

Employee charges car at home, their employer reimburses the electricity costs



[1] AMAP: Approved Mileage Allowance Payments

[2] MAR: Mileage Allowance Relief

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Our Vision - to be the firm of choice, through our team fulfilling their potential and delivering exceptional client service

For further information on tax and electric vehicles, please contact our experts below:

Sam Holloway
Partner
sam.holloway@mapartners.co.uk

Andrew Sayer
Tax Manager
andrew.sayer@mapartners.co.uk

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01603 227600
enquiries@mapartners.co.uk
mapartners.co.uk

MA Partners LLP
7 The Close, Norwich NR1 4DJ

Norwich | Attleborough | Cromer

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