Tax and electric vehicles

M+A Partners

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We are a forward-looking firm with an emphasis on innovation, new technology and finding pioneering ways to give our clients the best possible service.

Our Norfolk-based firm is led by nine partners who are some of the most high-profile and well-respected experts in their fields locally, supported by a talented team of over a hundred staff.

We have a well-earned reputation for building excellent relationships with clients and the wider business community. That has always been, and continues to be our number one priority.

Company cars usually come with a hefty benefit in kind charge which can often mean that they are not very tax efficient. However, since the company car tax rules were reformed in April 2020 to an emissions-based system, switching to an electric vehicle is now an attractive proposition.

Electric company cars

Vehicle Excise Duty (VED)

Until April 2025, electric cars are exempt from Vehicle Excise Duty.

From April 2025, electric cars registered since April 2017 will pay VED at the standard rate. Electric cars registered after 1 April 2025 will pay the lowest first year rate which is currently £10 before moving to the standard rate from the second year. The expensive car supplement also applies to zero emission cars registered from 1 April 2025.

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 investments in company vehicles. Company cars are categorised into a series of benefit in kind bands, based on the vehicle's fuel or energy type, CO_2 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 **x** by a factor expressed as a percentage and usually determined by the car's CO_2 emissions;
+ For the tax years 2022/23 to 2024/25 the factor is 2% for fully electric cars; and
+ The percentage is due to increase to 3% in 2025/26, to 4% in 2026/27 and to 5% in 2027/28 for fully electric cars.

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. Whereas, if the employer reimburses the employee for the cost of the electricity to charge the car, then this will count as taxable earnings.

However, if the employee pays to charge an electric company car, the employer can reimburse the employee for business travel at the advisory rate for fully electric cars, which is 9 pence per mile from April 2023.

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 CO_2 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** 2022/23 - 2024/25	**Tax Year** 2025/26	**Tax Year** 2026/27	**Tax Year** 2027/28
130+	**2%**	**3%**	**4%**	**5%**
70-129	**5%**	**6%**	**7%**	**8%**
40-69	**8%**	**9%**	**10%**	**11%**
30-39	**12%**	**13%**	**14%**	**15%**
<30	**14%**	**15%**	**16%**	**17%**

For both electric cars only and hybrids, 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 CO_2 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 savings to be had under a salary sacrifice scheme, as mentioned above, zero emissions cars purchased before 31 March 2025 (companies) or 5 April 2025 (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; and
+ For expenditure incurred between 1 April 2021 and 31 March 2023 on plant and machinery, including electric vehicle charge points (but not electric cars), companies qualified for a 130% first year relief in the form of the capital allowances super-deduction. For expenditure incurred after 31 March 2023, a 100% First Year Allowance remains available for fully electric cars and vehicle charge points purchased before 31 March 2025.

Click here to download our Capital Allowances factsheet, including further details on the super-deduction:

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

Until recently, 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 a non-electric or hybrid company van of £3,960 for the 2023/24 tax year which is due to be increased in line with CPI in subsequent years.

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.

As with electric cars, if the employer pays to charge an electric company van, the employer can reimburse the employee for business use applying the 9 pence per mile advisory fuel rate.

+ For expenditure incurred between 1 April 2021 and 31 March 2023 on a zero emissions van (and indeed on a non-electric van), companies qualified for the 130% first year capital allowances super-deduction.

+ For expenditure incurred on vans from 1 April 2023, 100% capital allowances will be 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.

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

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