

Reimbursement of Business Mileage

HM Revenue & Customs have decreased the rate at which business mileage allowances may be paid for cars provided by an employer, but where all fuel is paid for by the directors/employees personally.

This change, which is designed to reflect recent decreases in petrol/diesel costs, is applicable from 1 February 2007 (due to the short notice supplied, 28 days has been given for transition, but to continue with the tax liability exemption, these rates must be used from 1 March 2007):-

Vehicle Engine Size	Petrol	Diesel
Up to 1400 cc	11p reduced to 9p	10p reduced to 9p
1401 – 2000 cc	13p reduced to 11p	10p reduced to 9p
Over 2000 cc	18p reduced to 16p	14p reduced to 12p

The above rates may be used to calculate the amount payable for all business journeys undertaken without incurring any tax liability on the individual employee. Conversely, the company will receive tax relief on costs so incurred.

We would remind you of the importance of maintaining full and accurate records of mileage undertaken and amounts reimbursed. VAT input tax is recoverable subject to a VAT invoice(s) being held which must equal or exceed the value of the business mileage reimbursement, and the date on the invoice(s) must correspond with the dates covered by any claim. It is recommended that you advise your employees that all mileage/fuel claims must be supported by VAT invoices.

Please note that the revised rates only apply in respect of business mileage in company vehicles. There has been no change in the 40p/25p rates applicable to the reimbursement of business miles undertaken using the employee's own vehicle.

VAT Fuel Scale Charge – New CO₂ Basis

HM Revenue and Customs have announced that, with effect from 1 May 2007, the fuel scale charge for calculating VAT due where fuel is provided for private journeys in a company car will change from the engine size and fuel type system to a charge based solely on the CO₂ rating of the vehicle. The new system, mirroring that used for direct taxation, will have 21 bands with 5g/km increments.

Apart from the change to a CO₂ basis, the system will operate in exactly the same way as the existing charge.

The table to be used for the new system was published in the 2007 Budget and is attached for your information

Van and Van Fuel Benefits

The Chancellor has substantially increased the van benefit for employees who use a company van for private use from 6 April 2007. He has also introduced, from the same date, a £500 fuel benefit charge where fuel is provided for a company van and there is private use. However from 6 April 2006 the definition of private use has been made much more generous.

For the last tax year (2006/2007) the van benefit, if there was private use (but note that from 6 April 2006 private use does not include home to work or insignificant private use), was £500 per annum if the van was under 4 years old and £350 per annum if the van was over 4 years old. From 6 April 2007 this system was replaced with a flat charge of £3,000 per annum per van, irrespective of the age of the van. There is also a fuel benefit of £500 per annum if fuel is provided for a van and there is private use. Furthermore the employer will have a Class 1a National Insurance liability on all taxable benefits arising.

The changes will apply to anyone who has use of a company van and is deemed to have private use of that van during the fiscal year. As such, if the private use has continued post 5 April 2007, users need to be made aware that the tax charge effective from 6 April 2007 will rise six fold for a van under four years old (or even more for a van over four years old) plus the fuel benefit charge if applicable.

HM Revenue and Customs are also looking more carefully at the level of private use of vans. The legislation states that where the van is used 'mainly for the purposes of business travel', then there may be no benefit whatsoever (please note this more generous rule does not apply to cars where a tax charge arises if the car is available for private use and also does not apply to vans not provided mainly for business purposes) providing there is no, or insignificant, private use. Commuting to and from work is ignored for this test, as is other insignificant private use. Insignificant private use is defined as the van being used privately for a few days at most in the whole year, insignificant in quality (i.e. a short private journey to drop off a quantity of rubbish at the tip), intermittent and irregular and very much the exception to the normal pattern of use of the van.

Usage that would not count as insignificant includes where the employee uses the van for a holiday, to go shopping every week, private use for a continuous period of time, such as a week, or using the van outside of work for social activities.

Where appropriate, it is suggested, for the avoidance of doubt and to support any contention that there is no taxable private use, that there is a clause in the employee's contract of employment to expressly prohibit the use of the van for private use, other than commuting to and from work. Additionally, a record of mileage should be kept for all employees having the use of a van for business purposes only so as to be able to demonstrate that all mileage or almost all mileage undertaken is for business purposes (including home to work and insignificant private use).

It is also worth noting that any significant private use, even for a few days, invalidates the exemption for the whole year, and the full £3,000 annual benefits charge will apply. No reimbursement can negate the private use. Any contribution would only be offset against the full annual charge. However, the £500 fuel benefit can be eliminated by a full reimbursement for all private motoring fuel costs in the year.

One other point to consider is the definition of a van, especially in the context of double cabs and other hybrids. This is complex and depends on the make and model of the specific vehicle but broadly is a vehicle of less than 3500 kg of a construction primarily for the conveyance of goods or burden (rather than people). If you require further information on this point, we would be happy to assist.