DRIVING THE COSTS DOWN

One of the commonest and trickiest questions a bookkeeper is asked is, 'What can I claim for the car against tax?' Business use of a private car is a complex area, and the answer depends on a number of factors.

If the client is self-employed and there is no company involved, the position is relatively simple. The normal practice is to put all the running costs through the books and then make an adjustment in the tax return for private motoring. It is also necessary to disallow depreciation and claim capital allowances instead. The current rate is 20% on a reducing balance basis, but for 'dirty' cars (those with a CO2 emissions figure of more than 160g/km) bought after 5 April 2009 the rate is only 10%, whilst for cars bought on or before that date there is a £3,000 a year ceiling. If the car is leased, the rental payments are allowable, subject to a 15% restriction for leases of dirty cars starting after 5 April 2009 and a more complicated restriction for older leases where the list price when new was more than £12,000. All these capital costs are also subject to an adjustment for private motoring, which would normally be the same proportion as the adjustment for running costs.

Alternatively, if the business turnover is less than the VAT threshold, the client can claim 40p per business mile for the first 10,000 miles a year and 25p per business mile for any excess. This covers all expenses except the business portion of interest on a loan to buy the car.

Whichever alternative is chosen must be used consistently; it is only possible to switch when there is a change of car. If opting for the mileage basis, one needs to bear in mind that the rate is laid down by law and has not changed for a number of years.

If the client is a company director, there is a choice between a private car and a company car. Surprisingly, the more the car is used for private purposes the better sense it makes to opt for a company car. If the car is private, the client can claim a tax-free mileage allowance at the 40p/ 25p rates for business motoring, but, unlike the self-employed client, cannot claim anything for interest. The company can claim input VAT on a proportion of the allowance representing fuel costs and a deduction from taxable profits for the balance.

If the company owns the car, it can claim deductions for expenses in much the same way as a self-employed person, but without a restriction for private use. There is then a benefit in kind charged on the individual of a percentage of the list price of the car. The precise percentage depends on the type of fuel the car uses and the CO2 emissions figure. It does not vary with the extent of private use. There is a further charge for private fuel based on the same percentage of £16,900 (for 2009-10), unless a full record is kept to show that the company does not pay for fuel for private use. These charges are additions to personal income for tax purposes, whilst the company has to pay National Insurance on these benefit charges at employer's NIC rates.

Software is available commercially to calculate the overall financial implications of private versus company cars, but it would be a useful intellectual exercise to devise one's own spreadsheet template for this purpose.

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