RELEVANT TO ACCA QUALIFICATION PAPER F6 (UK)

Motor cars

This article is relevant to those of you taking Paper F6 (UK) in either the June or December 2013 sittings, and is based on tax legislation as it applies to the tax year 2012–13 (Finance Act 2012).

Motor cars have featured in every Paper F6 (UK) exam that has been set up to December 2012, which is not surprising given that acquiring, running, or having the use of a motor car can have income tax, corporation tax, value added tax (VAT) or National Insurance contribution (NIC) implications.

PURCHASING A MOTOR CAR

When a sole trader, partnership or limited company purchases a motor car, then capital allowances will be available. Motor cars do not qualify for the annual investment allowance, although new motor cars with CO_2 emissions up to 110 grams per kilometre qualify for a 100% first-year allowance. Motor cars qualifying for writing down allowances at the rate of 18% (CO_2 emissions between 111 and 160 grams per kilometre) are included in the main pool, while motor cars qualifying for writing down allowances at the rate of 8% (CO_2 emissions over 160 grams per kilometre) are included in the special rate pool.

EXAMPLE 1

Newstart Ltd commenced trading on 1 April 2012. The following new motor cars were purchased during the year ended 31 March 2013:

	Date of purchase	Cost £	CO_2 emission rate
Motor car (1)	3 April 2012	12,400	98 grams per kilometre
Motor car (2)	6 April 2012	17,700	135 grams per kilometre
Motor car (3)	8 April 2012	16,900	192 grams per kilometre

The company's capital allowances for the year ended 31 March 2013 are as follows:

	£	Main pool £	Special rate pool £	Allowances £
Addition qualifying for FYA				
Motor car (1)	12,400			
FYA – 100%	(12,400)	0		12,400
Additions - Motor car (2)		17,700		
Additions – Motor car (3)			16,900	
WDA – 18%		(3,186)		3,186
WDA – 8%			(1,352)	1,352
		14,514	15,548	
Total allowances				16,938

- Motor car (1) has CO_2 emissions up to 110 grams per kilometre and therefore qualifies for the 100% first year allowance.
- Motor car (2) has CO_2 emissions between 111 and 160 grams per kilometre, and is therefore included in the main pool.

© 2013 ACCA

- Motor car (3) has CO_2 emissions over 160 grams per kilometre and is therefore included in the special rate pool.

There is no private use adjustment where a motor car is used by a director or an employee – an adjustment is only made where there is private use by a sole trader or a partner. Motor cars with private use are not pooled, but are kept separate so that the private use adjustment can be calculated.

EXAMPLE 2

Judith prepares accounts to 5 April. On 6 April 2012 the tax written down values of her plant and machinery were as follows:

	£
Main pool	36,700
Motor car (1)	15,600

The following new motor cars were purchased during the year ended 5 April 2013:

	Date of purchase	**Cost £**	**CO_2 emission rate**
Motor car (2)	1 May 2012	11,600	136 grams per kilometre
Motor car (3)	1 June 2012	16,400	144 grams per kilometre

The following motor cars were sold during the year ended 5 April 2013:

	Date of sale	**Proceeds £**
Motor car (1)	1 May 2012	13,400
Motor car (4)	1 June 2012	6,600

Motor cars (1) and (2) were used by Judith, and 35% of the mileage was for private journeys. Motor cars (3) and (4) were used by an employee, and 10% of the mileage was for private journeys. The original cost of motor car (4) was £14,300, and this has previously been added to the main pool.

Judith's capital allowance claim for the year ended 5 April 2013 is as follows:

	Main pool £	**Motor car (1) £**		**Motor car (2) £**		**Allowances £**
WDV brought forward	36,700	15,600				
Additions						
Motor car (2)				11,600		
Motor car (3)	16,400					
Proceeds						
Motor car (1)		(13,400)				
Motor car (4)	(6,600)					
	46,500	2,200				
Balancing allowance		(2,200)	x 65%			1,430
WDA – 18%	(8,370)					8,370
WDA – 18%				(2,088)	x 65%	1,357
WDV carried forward	38,130			9,512		

Total allowances					11,157

- The private use of motor cars (3) and (4) is irrelevant, since such usage will be assessed on the employee as a taxable benefit.
- Note that with motor car (2), the full writing down allowance is deducted in calculating the written down value carried forward.

Where partners own their motor cars privately, it is the partnership (and not the individual partners) that make the capital allowances claim.

EXAMPLE 3

Auy and Bim commenced in partnership on 6 April 2012. The following new motor cars were purchased during the year ended 5 April 2013:

	Date of purchase	Cost £	CO_2 emission rate
Motor car (1)	8 April 2012	11,400	94 grams per kilometre
Motor car (2)	10 April 2012	16,900	140 grams per kilometre

Motor car (1) is used by Auy, and 40% of the mileage is for business journeys. Motor car (2) is used by Bim, and 85% of the mileage is for business journeys.

The partnership's capital allowances for the year ended 5 April 2013 are as follows:

			Motor car (2)		Allowances
	£		£		£
Addition			16,900		
WDA – 18%			(3,042)	x 85%	2,586
Addition qualifying for FYA					
Motor car (1)	11,400				
FYA – 100%	(11,400)	x 40%			4,560
WDV carried forward			13,858		
Total allowances					7,146

Unless a motor car is used exclusively for business purposes, input VAT is not recoverable when it is purchased. Output VAT will then not be due on the disposal. Therefore, for capital allowance purposes, VAT inclusive figures are used.

LEASING A MOTOR CAR

When calculating a business's trading profit, no adjustment is necessary where the CO_2 emissions of a leased motor car do not exceed 160 grams per kilometre. Where CO_2 emissions are more than 160 grams per kilometre, then 15% of the leasing costs are disallowed in the calculation.

© 2013 ACCA

EXAMPLE 4

When calculating its trading profit for the year ended 31 March 2013, Fabio Ltd deducted the following leasing costs:

	£
Lease of motor car with CO_2 emissions of 180 grams per kilometre	3,280
Lease of motor car with CO_2 emissions of 120 grams per kilometre	2,980
	6,260

- The disallowance of leasing costs for the motor car with CO_2 emissions of 180 grams per kilometre is £492 (3,280 x 15%).
- There is no disallowance for the motor car with CO_2 emissions of 120 grams per kilometre, as this is less than 160 grams per kilometre.

MOTOR EXPENSES

When calculating the trading profit for a sole trader or a partnership, an adjustment will be necessary for the private proportion of motor expenses that relate to the sole trader or the partners. No adjustment is necessary where motor expenses relate to directors or employees.

EXAMPLE 5

When calculating its trading profit for the year ended 5 April 2013, the partnership of Look & Hear deducted motor expenses of £4,100. This figure includes £2,600 in respect of the partners' motor cars, with 30% of this amount being in respect of private journeys.

- The disallowance for motor expenses is £780 (2,600 x 30%).

Provided there is some business use, the full amount of input VAT can be reclaimed in respect of repairs.

Where fuel is provided then all the input VAT (for both private and business mileage) can be recovered, but the private use element is then normally accounted for by way of an output VAT scale charge. The scale charge can apply to sole traders, partners, employees or directors.

EXAMPLE 6

Vanessa is self-employed, and has a motor car that is used 70% for business mileage. During the quarter ended 31 March 2013 Vanessa spent £1,128 on repairs to the motor car and £984 on fuel for both business and private mileage. The relevant quarterly scale charge is £450. All figures are inclusive of VAT.

Vanessa will include the following entries on her VAT return for the quarter ended 31 March 2013:

	£
Output VAT	
Fuel scale charge (450 x 20/120)	75
Input VAT	
Motor repairs (1,128 x 20/120)	188
Fuel (984 x 20/120)	164

© 2013 ACCA

PROVISION OF A COMPANY MOTOR CAR
When an employee is provided with a company motor car the taxable benefit is calculated as a percentage of the motor car's list price. The percentage is based on the level of the motor car's CO_2 emissions.

List price: Any discounts given to the employer are ignored. The employee can reduce the figure on which his or her company car benefit is calculated by making a capital contribution of up to £5,000.

Percentage: The base percentage is 11%, and this applies where a motor car's CO_2 emissions are at a base level of 100 grams per kilometre. The percentage is then increased in 1% steps for each five grams per kilometre above the base level, subject to a maximum percentage of 35%.

There are two lower rates for company motor cars with low CO_2 emissions. For a motor car with a CO_2 emission rate of 75 grams per kilometre or less the percentage is 5%. For a motor car with a CO_2 emission rate of between 76 and 99 grams per kilometre the percentage is 10%.

Diesel cars: The percentage rates (including the lower rates of 5% and 10%) are increased by 3% for diesel cars, but not beyond the maximum percentage rate of 35%.

Reduction: The taxable benefit is proportionately reduced if a motor car is unavailable for part of the tax year.

Contribution: Any contribution made by an employee towards the use of a company motor car will reduce the taxable benefit.

Pool cars: The use of a pool car does not result in a company car benefit. A pool car is one that is used by more than one employee, that is used only for business journeys (private use is only permitted if it merely incidental to a business journey), and where the motor car is not normally kept at or near an employee's home.

Related benefits: The motor car benefit covers all the costs associated with having a motor car such as insurance and repairs. The only cost that will result in an additional benefit is the provision of a chauffeur.

EXAMPLE 7

During the tax year 2012–13 Fashionable plc provided the following employees with company motor cars:

Amanda was provided with a new petrol powered company car throughout the tax year 2012–13. The motor car has a list price of £12,200 and an official CO_2 emission rate of 84 grams per kilometre.

Betty was provided with a new petrol powered company car throughout the tax year 2012–13. The motor car has a list price of £16,400 and an official CO_2 emission rate of 114 grams per kilometre.

Charles was provided with a new diesel powered company car on 6 August 2012. The motor car has a list price of £13,500 and an official CO_2 emission rate of 142 grams per kilometre.

© 2013 ACCA

Diana was provided with a new petrol powered company car throughout the tax year 2012–13. The motor car has a list price of £84,600 and an official CO_2 emission rate of 238 grams per kilometre. Diana paid Fashionable plc £1,200 during the tax year 2012–13 for the use of the motor car. Diana was unable to drive her motor car for two weeks during February 2013 because of an accident, so Fashionable plc provided her with a chauffeur at a total cost of £1,800.

Amanda
The CO_2 emissions are between 76 grams and 99 grams per kilometre, so the relevant percentage is 10%. The motor car was available throughout 2012–13, so the benefit is £1,220 (12,200 x 10%).

Betty
The CO_2 emissions are above the base level figure of 100 grams per kilometre. The CO_2 emissions figure of 114 is rounded down to 110 so that it is divisible by five. The minimum percentage of 11% is increased in 1% steps for each five grams per kilometre above the base level, so the relevant percentage is 13% (11% + 2% (110 – 100 = 10/5)). The motor car was available throughout 2012–13, so the benefit is £2,132 (16,400 x 13%).

Charles
The CO_2 emissions are above the base level figure of 100 grams per kilometre. The relevant percentage is 22% (11% + 8% (140 – 100 = 40/5) = 19% plus a 3% charge for a diesel car). The motor car was only available for eight months of 2012–13, so the benefit is £1,980 (13,500 x 22% x 8/12).

Diana
The CO_2 emissions are above the base level figure of 100 grams per kilometre. The relevant percentage is 38% (11% + 27% (235 – 100 = 135/5)), but this is restricted to the maximum of 35%. The motor car was available throughout the tax year 2012–13, so the benefit is £28,410 (84,600 x 35% = 29,610 – 1,200). The contributions by Diana towards the use of the motor car reduce the benefit. The provision of a chauffeur will result in an additional benefit of £1,800.

If fuel is provided for private use then there will additionally be a fuel benefit. This is also based on a motor car's CO_2 emissions.

Base figure: For the tax year 2012–13 the base figure is £20,200.

Percentage: The percentage used in the calculation is exactly the same as that used for calculating the related company car benefit.

Reduction: The fuel benefit is proportionately reduced if a motor car is unavailable for part of the tax year.

The fuel benefit can also be proportionately reduced where the fuel itself is only provided for part of the tax year. However, it is not possible to opt in and out depending on monthly use. If, for example, fuel is provided from 6 April to 30 September 2012, then the fuel benefit for the tax year 2012–13 will be restricted to just six months. This is because the provision of fuel has permanently ceased. However, if fuel is provided from 6 April to 30 September 2012, and then again from 1 January to 5 April 2013, then the fuel benefit will not be reduced – the cessation was only temporary.

© 2013 ACCA

Contribution: No reduction is made for contributions made by an employee towards the cost of private fuel unless the entire cost is reimbursed. In this case there will be no fuel benefit.

EXAMPLE 8

Continuing with Example 7.

Amanda was provided with fuel for private use between 6 April 2012 and 5 April 2013.

Betty was provided with fuel for private use between 6 April 2012 and 31 December 2012.

Charles was provided with fuel for private use between 6 August 2012 and 5 April 2013.

Diana was provided with fuel for private use between 6 April 2012 and 5 April 2013. She paid Fashionable plc £600 during the tax year 2012–13 towards the cost of private fuel, although the actual cost of this fuel was £1,000.

Amanda
The motor car was available throughout 2012–13, so the fuel benefit is £2,020 (20,200 x 10%).

Betty
Fuel was only available for nine months of 2012–13, so the fuel benefit is £1,969 (20,200 x 13% x 9/12).

Charles
The motor car was only available for eight months of 2012–13, so the fuel benefit is £2,963 (20,200 x 22% x 8/12).

Diana
The motor car was available throughout 2012–13, so the fuel benefit is £7,070 (20,200 x 35%). There is no reduction for the contributions made since the cost of private fuel was not fully reimbursed.

The employer is responsible for paying class 1A NIC in respect of taxable benefits at the rate of 13.8%.

EXAMPLE 9

Continuing with Examples 7 and 8.

The total amount of taxable benefits for 2012–13 is £49,564 (1,220 + 2,132 + 1,980 + 28,410 + 1,800 + 2,020 + 1,969 + 2,963 + 7,070), so Fashionable plc will have to pay class 1A NIC of £6,840 (49,564 at 13.8%).

USE OF OWN MOTOR CAR

Employees who use their own motor car for business travel must use the HMRC's authorised mileage allowances in order to calculate any taxable benefit arising from mileage allowances received from their employer. Employees who use their motor cars for business mileage without being reimbursed by their employer (or where the reimbursement is less than the approved mileage allowances) can use the approved mileage allowances as a basis for an expense claim.

© 2013 ACCA

The rate of approved mileage allowance for the first 10,000 business miles is 45p per mile, and for business mileage in excess of 10,000 miles the rate is 25p per mile.

Unlike other taxable benefits that are subject to class 1A NIC, any taxable benefit arising from mileage allowances is treated as earnings subject to both employee and employer's class 1 NICs.

EXAMPLE 10

Dan and Diane used their own motor cars for business travel during the tax year 2012–13.

Dan drove 8,000 miles in the performance of his duties, and his employer reimbursed him at the rate of 60p per mile.

Diane drove 12,000 miles in the performance of her duties, and her employer reimbursed her at the rate of 30p per mile.

Dan

The mileage allowance received by Dan was £4,800 (8,000 at 60p) and the tax free amount was £3,600 (8,000 at 45p). The taxable benefit is therefore £1,200 (4,800 – 3,600).

The taxable benefit will be included as part of Dan's taxable income. It will also be subject to both employee and employer's class 1 NICs.

Diane

Diane can make an expense claim of £1,400 as follows:

	£
10,000 miles at 45p	4,500
2,000 miles at 25p	500
	5,000
Mileage allowance received (12,000 at 30p)	(3,600)
Expense claim	1,400

Sometimes, rather than being given the amount of business mileage, you might have to ascertain what it is. Remember that business mileage does not include:

Ordinary commuting: This is where an employee drives between home and their normal workplace. This includes the situation where an employee is required to go into work at the weekend or because of an emergency such as to turn off a fire alarm.

Private travel: This is any journey that is not for work purposes.

Business mileage includes the following:

Travel to visit clients: This is provided the journey is not virtually the same as the employee's ordinary commute, such as where an employee travels from home to a client's premises that are situated near their normal workplace.

© 2013 ACCA

Travel to a temporary workplace: A temporary workplace is one where the employee expects to be based for less than 24 months. Again, there is the provision that the journey must not be virtually the same as the employee's normal commute.

EXAMPLE 11

During the tax year 2012–13 Joan used her private motor car for both private and business journeys. She was reimbursed by her employer, Steam Ltd, at the rate of 40p per mile for the following mileage:

	Miles
Normal daily travel between home and Steam Ltd's offices	2,480
Travel between home and a temporary workplace (the assignment was for 16 weeks)	3,360
Travel between Steam Ltd's offices and the premises of Steam Ltd's clients	1,870
Travel between home and the premises of Steam Ltd's clients	830
Total mileage reimbursed by Steam Ltd	8,540

- The mileage allowance received by Joan was £3,416 (8,540 at 40p).
- Ordinary commuting does not qualify for relief, but the travel to the temporary workplace does qualify as the 24-month limit is not exceeded.
- The tax free amount is £2,727 (3,360 + 1,870 + 830 = 6,060 at 45p).
- The taxable benefit is therefore £689 (3,416 – 2,727).

The authorised mileage allowances can also be used in other circumstances.

EXAMPLE 12

Leticia lets out a property that qualifies as a trade under the furnished holiday letting rules. During the tax year 2012–13 she drove 1,180 miles in her motor car in respect of the furnished holiday letting business. She uses the HMRC's authorised mileage rates to calculate her expense deduction. The mileage was for the following purposes:

	Miles
Purchase of property	160
Running the business on a weekly basis	880
Property repairs	140

The mileage that Leticia drove in respect of the property purchase is capital in nature, and therefore does not qualify. Her mileage allowance is therefore £459 (880 + 140 = 1,020 at 45p).

CAPITAL GAINS TAX AND INHERITANCE TAX

The disposal of a motor car is exempt from CGT purposes, but there is no exemption from IHT. Therefore, a person's estate includes the value of any motor cars which they own at the date of death.

© 2013 ACCA

EXAM STANDARD QUESTION
The following question was has been updated from the December 2010 sitting.

You should assume that today's date is 20 March 2012.

Sammi Smith is a director of Smark Ltd. The company has given her the choice of being provided with a leased company motor car or, alternatively, being paid additional director's remuneration and then privately leasing the same motor car herself.

Company motor car
The motor car will be provided throughout the tax year 2012–13, and will be leased by Smark Ltd at an annual cost of £27,720. The motor car will be petrol powered, will have a list price of £82,000, and will have an official CO_2 emission rate of 300 grams per kilometre.

The lease payments will cover all the costs of running the motor car except for fuel. Smark Ltd will not provide Sammi with any fuel for private journeys.

Additional director's remuneration
As an alternative to having a company motor car, Sammi will be paid additional gross director's remuneration of £28,000 during the tax year 2012–13. She will then privately lease the motor car at an annual cost of £27,720.

Other information
The amount of business journeys that will be driven by Sammi will be immaterial and can therefore be ignored.

Sammi's current annual director's remuneration is £100,000. Smark Ltd prepares its accounts to 5 April, and pays corporation tax at the full rate of 24%. The lease of the motor car will commence on 6 April 2012.

Requirements

(a) Advise Sammi Smith of the income tax and National Insurance contribution implications for the tax year 2012–13 if she (1) is provided with the company motor car, and (2) receives additional director's remuneration of £28,000.
(5 marks)

(b) Advise Smark Ltd of the corporation tax and National Insurance contribution implications for the year ended 5 April 2013 if the company (1) provides Sammi Smith with the company motor car, and (2) pays Sammi Smith additional director's remuneration of £28,000.

Note: You should ignore value added tax (VAT). (5 marks)

(c) Determine which of the two alternatives is the most beneficial from each of the respective points of view of Sammi Smith and Smark Ltd. (5 marks)
(15 marks)

© 2013 ACCA

MOTOR CARS

JANUARY 2013

(a)

Sammi Smith – Company motor car

(1) The relevant percentage is restricted to a maximum of 35% (11% + 40% (300 – 100 = 200/5) = 51%).

(2) Sammi will therefore be taxed on a car benefit of £28,700 (82,000 x 35%).

(3) Sammi's marginal rate of income tax is 40%, so her additional income tax liability for 2012–13 will be £11,480 (28,700 at 40%).

(4) There are no National Insurance contribution implications for Sammi.

Tutorial note: There is no fuel benefit as fuel is not provided for private journeys.

Sammi Smith – Additional director's remuneration

(1) Sammi's additional income tax liability for 2012–12 will be £11,200 (28,000 at 40%).

(2) The additional employee's class 1 NIC liability will be £560 (28,000 at 2%).

Tutorial note: Sammi's director's remuneration exceeds the upper earnings limit of £42,475, so her additional class 1 NIC liability is at the rate of 2%.

(b)

Smark Ltd – Company motor car

(1) The employer's class 1A NIC liability in respect of the car benefit will be £3,961 (28,700 at 13.8%).

(2) The motor car has a CO_2 emission rate in excess of 160 grams per kilometre, so only £23,562 (27,720 less 15%) of the leasing costs are allowed for corporation tax purposes.

(3) Smark Ltd's corporation tax liability will be reduced by £6,606 (23,562 + 3,961 = 27,523 at 24%).

Smark Ltd – Additional director's remuneration

(1) The employer's class 1 NIC liability in respect of the additional director's remuneration will be £3,864 (28,000 at 13.8%).

(2) Smark Ltd's corporation tax liability will be reduced by £7,647 (28,000 + 3,864 = 31,864 at 24%).

© 2013 ACCA

(c)

Most beneficial alternative for Sammi Smith

(1) Under the director's remuneration alternative, Sammi will receive additional net of tax income of £16,240 (28,000 – 11,200 – 560).

(2) However, she will have to lease the motor car at a cost of £27,720, so the overall result is additional expenditure of £11,480 (27,720 – 16,240).

(3) If Sammi is provided with a company motor car then she will have an additional tax liability of £11,480, so she is in exactly the same financial position.

Most beneficial alternative for Smark Ltd

(1) The net of tax cost of paying additional director's remuneration is £24,217 (28,000 + 3,864 – 7,647).

(2) This is more beneficial than the alternative of providing a company motor car since this has a net of tax cost of £25,075 (27,720 + 3,961 – 6,606).

Written by a member of the Paper F6 examining team

© 2013 ACCA