

Changes to capital allowances on company cars: March 2009

From 1 April 2009 capital allowances for business cars are changing – this is to alert you to the proposed effects and highlight the triggers which can seriously affect how your company obtains tax relief on company cars.

The thrust behind all this is the Government pushing for businesses to acquire more environmentally friendly and fuel-efficient cars. This is reflected in the new tax allowances for capital expenditure on cars and the tax relief on leasing cars.

Capital allowances are moving from being cost based to emissions based – we feel it is important for you to realise how adverse the changes are if you buy a car with CO2 emissions over a limit which is expected to be 160 g/km.

Pre 1 April 2009 rules

- Cars with CO2 emissions of ≤ 110 g/km received 100% first year allowances.

- Cars costing < £12,000 were pooled and attracted a writing down allowance of 20% on a reducing balance basis.
- Cars costing > £12,000 were dealt with separately and each car attracted a maximum writing down allowance of £3,000 per annum with a balancing adjustment in the year of sale.

Post 1 April 2009 proposed new allowances

- Cars with CO2 emissions of ≤ 110 g/km will receive 100% first year allowances.
- Cars with CO2 emissions of > 110 g/km but ≤ 160 g/km will receive a 20% writing down allowance on a reducing balance basis with no balancing adjustment on sale.
- Cars with CO2 emissions of >160 g/km will receive a 10% writing down allowance on a reducing balance basis with no balancing adjustment on sale.

These changes will dramatically affect the timing of tax relief for most cars. Below is a comparison of the old rules compared to the new rules for cars with CO2 emissions of > 110 g/km costing £18,000 and sold for £6,000 after three years:

	PRE 1 APRIL RELIEF		CO2 emissions >110 g/km – 160 g/km		CO2 emissions >160 g/km	
	PRE 1 APRIL RELIEF	CUMULATIVE RELIEF	POST 1 APRIL RELIEF	CUMULATIVE RELIEF	POST 1 APRIL RELIEF	CUMULATIVE RELIEF
Yr 1	£3,000	£3,000	£3,600	£3,600	£1,800	£1,800
Yr 2	£3,000	£6,000	£2,880	£6,480	£1,620	£3,420
Yr 3	£6,000	£12,000	£1,104	£7,584	£ 858	£4,278
Yr 4			£883	£8,467	£ 772	£5,050
Yr 5			£707	£9,174	£ 695	£5,745
Yr 6			£565	£9,739	£ 625	£6,370
Yr 7–10			Total of £1,335	£11,074	Total of £1,936	£8,306
Yr 11–20			Total of £827	£11,901	Total of £2,406	£10,712
			Relief continues at 20% pa (on £99 in yr 21)	Eventually £12,000	Relief continues at 10% pa (on £1,288 in yr 21)	Eventually £12,000

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2/2

Whether the company car obtains allowances at 20% or 10% makes a big difference to the timing of the relief, so it is worth checking which bracket a proposed purchase falls into.

It is also important to note that the 160 g/km limit is expected to reduce over time – again worth checking with us what the current limit is when you are contemplating a car purchase.

LEASED CARS

Pre 1 April 2009 rules

- Cars leased with a market value of > £12,000 had a proportion of the lease expense disallowed.

Post 1 April 2009 proposals

- Cars with CO2 emissions of ≤ 160 g/km will have no proportion of the lease expense disallowed.
- Cars with CO2 emissions of >160 g/km will suffer a flat rate disallowance of 15% of the rental expense.

Again, it is expected that the 160 g/km limit will be reduced over time, so before leasing a car it will also be worth checking whether a car is over or under the limit then in force.

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