



Company Car Tax Averaging Tax Rules Fact Sheet – October 2018

Introduction

A single national scheme for calculating company car tax exists with HM Revenue and Customs for circumstances where staff have a contractual right to use a vehicle for private purposes, which includes travelling to and from work, but they are not allocated a specific car due to the nature of the employers' business.

A car averaging scheme helps to remove the considerable amount of record keeping and administrative work involved where there are frequent changes of car.

How does the scheme work?

STEP 1 - Which cars to can be used?

All cars actually available to the employees should be recorded, by list price, CO2, and fuel type. This is then averaged into the notional cars as detailed below.

Special rule for rental members

Instead of counting the cars available at each location, daily rental members may simply use details of the cars in their entire fleet in which private use by staff is permitted. They can do so on a regional basis or, if they prefer and this gives a reasonable proxy for cars actually available to employees across the country, nationally. This policy decision should be stable over time and not change from year to year as a matter of expediency.

STEP 2 - How to group the cars?

Rental members

Rental members will already group the vehicles they make available for hire for commercial reasons - i.e. your car group categories. These groups will help you to determine the basis for averaging your employees benefit in kind charge.

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All other businesses

The table below groups cars according to their price. The Group numbering will be used later on. "Price" here means the list price of the car and any accessories fitted to it, including delivery and VAT, as determined in step 1.

Group	Price from	Price to
1	£0.00	£8,999.99
2	£9,000.00	£11,999.99
3	£12,000.00	£16,999.99
4	£17,000.00	£22,999.99
5	£23,000.00	£30,999.99
6	£31,000.00	£39,999.99
7	£40,000.00	£49,999.99
8	£50,000.00	£64,999.99
9	£65,000.00	£79,999.99
10	£80,000.00	Upwards

STEP 3 – How to calculate the average price for the notional car in each group?

This is achieved using this process:

- take the uncapped price of each car in the group above, as determined in step 1.
- add these together and divide by the number of cars in the group
- restrict the result to £80,000 if, exceptionally high, this is necessary
- the result is the price for the notional car in that group.

Rental members will also need to calculate the average price of the cars in their fleet which are available to staff, in accordance with their decision at step 1, i.e. the cars counted when the sample was taken or those in their entire fleet which are available to staff, counted nationally or regionally.

STEP 4 – What is the average CO₂?

This is achieved using this process:

- take the CO₂ emissions figure of each car in the group and add these together.
- add 15 for each diesel car in the group to which the diesel supplement applies.
 - divide the result by the number of cars in the group

The result is the CO₂ emissions figure for the notional car in that group (round down to the next integer).

How to find the appropriate percentage for the notional car?

Because the effect of all fuels other than petrol has been taken into account in the above calculation, the notional car is deemed to run on petrol. The appropriate percentage for the year is therefore determined using the ready reckoner from the normal company car tax rules which can be accessed [here](#).

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The benefit charge of notional car

For the notional car in each group, multiply the average price (as determined at Step 3,) by the appropriate percentage (as determined at Step 4).

How to identify qualifying employees?

These arrangements only apply to employees who have the contractual right to use a car for private purposes but are not allocated a particular car in that tax year.

Each site, including daily rental businesses and fleet operators, records the cars actually available to employees for private use. For 2010/2011 onwards on a night of the employer's choice during the period 17-31 January in the previous tax year (so 17-31 January 2010 for 2010/2011). The employer lists employees qualifying as described above. The list will need to be amended as the year proceeds and new staff join or existing staff leave.

Particularly in leasing and daily rental businesses and fleet operators, HMRC accepts that not all cars on the premises on the date the sample is taken in each year are available to employees for private use. HMRC will be guided by decisions on this made by the employer so long as procedures are in place under which the employer monitors use in practice and takes action if employees fail to abide by the employer's rules.

How to allocate qualifying employees to the notional cars?

The employer simply allocates each member of staff to a group as outlined in Step 2, thus determining which cars are available to them. This may be done on an individual basis or by job type (e.g. sales executive). The number of employees allocated to a group may not exceed the number of cars in that group, but all groups must be populated with employees because those groups only contain cars which are available to employees for private use.

There are **three main exceptions** to this standard pattern:

- an employee joining during the year is allocated to the appropriate group from the date on which they are first entitled to use a grouped car. A form P46(car) is completed using the details of the notional car for that group and the date goes onto their first form P11D.
- an employee leaving during the year: a P46 (car) is completed showing that the car has been withdrawn and the date of leaving goes onto their final P11D.
- an employee who changes their job during the year may move up or down a group. No P46(car) is required (though the employer may complete one if they wish) and they are shown on form P11D as having two cars available in succession during the year, the first up to and the second from the date of change.

Special rule for rental members

These rules apply where only one grade or kind of employee is allowed to use cars privately at each location and that employee is instructed to use a car from the lowest available group.

Each employee should be allocated to the group set by the rental company with an average price immediately below the average for all available cars as determined at Step 3. They are deemed to

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use a car in that group, even though they may be allowed to use and actually use cars from higher and lower groups depending on availability.

If an employee has a free choice of what car to use, the average price determined at Step 3 should be used and the CO2 emissions figure calculated for that car using the rules at Step 4 above.

What if the employee uses a car from a different group?

The normal rule is that an employee must use a car of the group to which they are allocated. However, there will inevitably be occasions when this is not possible. No charge or reduction will be made for the car outside the group if it is not materially better than the notional car and occurs on an infrequent basis.

Procedures and record-keeping

Employers will still be required to keep the records such as details of cars by price and CO2 which fall into the scheme and list of employees entitled to use those cars in the tax year and the group they are allocated into and why.

Form P11D - This should form must be completed annually with the relevant details for each employee.

Form P46 (car) - This is only required where the employee joins or leaves the employment. No form will be necessary if an employee changes groups, whether in year or between years.

Car fuel benefit

Car fuel benefit legislation applies to employees with cars subject to averaging as it does to all others. If Members choose to provide private fuel to some or all employees, you must complete a P11D accordingly. If you choose not to provide private fuel to an employee, the employee is required to make good the full cost of any fuel used privately on the basis that private mileage was all done in the notional car.

For further information please see our fact sheet on [fuel benefit charge tax](#).

BVRLA Contacts:

legal@bvrla.co.uk or call 01494 434747

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