

## ***TAXATION INFORMATION SHEET APRIL 2004***

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# **1. VALUE ADDED TAX**

## **1.1 Overview**

There are many and varied types of taxation levied by the government to ensure that their coffers are filled. These include Income Tax (including benefit in kind taxation), Corporation Tax and Value Added Tax.

Value Added Taxation is in basic terms a "SALES TAX" on the final consumer. If a trading body (e.g. company) meets certain criteria i.e. taxable supplies exceed £58,000 (£56,000 2003/04) it will become VAT registered. As long as a company is VAT registered it collects this Sales Tax on behalf of the government by charging an additional 17.5% on the value of the sale.

As VAT is a tax on the final consumer, the government allows VAT registered companies to reclaim VAT it has paid on obtaining and processing goods for resale, against the VAT it is charging on the government's behalf.

## **1.2 VAT returns**

VAT is calculated on a "VAT Return", a document the company must complete and return to Customs and Excise on a regular basis. VAT Returns are generally completed on a quarterly basis, although there are the odd exceptions. If a company's turnover is less than £660,000 they may be allowed to complete their return annually to reduce the administrative burden.

## **1.3 Exempt Businesses**

Some types of business are exempt from registering for VAT. These tend to be finance-based businesses such as banks and insurance companies, but also include some medical-based operations and a few government bodies.

If there is no "Sale" it is not possible to charge a "Sales Tax".

Some businesses have mixed operations, encompassing both exempt and non-exempt business activities. In these cases VAT is reclaimed on a proportional basis in line with the business activities that are liable for VAT.

There are three VAT rates:

- Standard Rate 17.5%
- Lower Rate 5%
- Zero Rate 0%

The Lower Rate applies to supplies of domestic, residential and charitable non-business fuel and power, and certain installations of energy saving material.

## **1.4 Why VAT is important to Leasing Companies**

On 1<sup>st</sup> August 1995 the law was changed, allowing 100% of the VAT to be recoverable on vehicles purchased SOLELY for business use, i.e. no private use other than within the course of commercial rental or leasing. This enables the leasing company to reclaim 100% of the VAT on a vehicle purchase.

Most companies (excluding leasing and rental companies) cannot reclaim any of the VAT on the purchase price of a vehicle.

The leasing company reclaims the VAT, reducing the capital cost of the vehicle purchase by almost 15% and therefore reduces the rentals; and this enhances the appeal of contract hire as a funding method.

## 1.5 “Effective Rental”

The government needed to ensure that they reclaim some of the benefit that the leasing companies receive on purchase. They do this by restricting the amount a company can reclaim against the rental payments (where the government assume that an element of private use of the vehicle will occur).

The government restriction only impacts on the “hire” or “finance” element of the rental (i.e. the bit of the rental that applies to the purchase price). The restriction is currently set at 50%. Effective rental includes the irrecoverable VAT from the finance element in the rental quoted; i.e. it is the true cost to a company.

$$= \text{Net Hire} + \text{Net Service} + \frac{1}{2}(\text{Hire VAT})$$

In splitting the parts of the rental, the charges, which would relate wholly to the “finance/hire” element of the rental and thus be subject to the 50% VAT restriction, include:

- depreciation
- funding costs
- road fund licence for the lease period
- depreciation and funding of any accessories fitted prior to delivery

Customs accept that full VAT recovery will be allowed on:

- all maintenance and repair costs, including tyres and exhausts
- roadside recovery/assistance
- costs of replacement car provision, in the event the leased car is out of use

## 1.6 Qualifying and Non-Qualifying Vehicles

Any vehicle registered after 1 August 1995 for the SOLE purpose of business use (and that includes use in the course of commercial leasing or rental) is classed as a “Qualifying” car. Basically a qualifying car is one where the VAT has been re-claimed.

Any vehicle where the purchaser has been unable to recover the VAT is classed as a “Non-Qualifying” vehicle. It is common to come across these vehicles when dealing with Sale and Hireback, where the leasing company “buys” the vehicle from the customer and “hires” it back to that customer.

Where a vehicle is Non-Qualifying it means that the vehicle has a higher capital cost (because the VAT has not been recovered on purchase). However 100% of the VAT charged on the rental can be reclaimed by the customer. This means the Effective Rental rule does not apply, and for this reason “Non Qualifying” vehicles are treated differently on leasing company rental invoices.

If a third party company purchases a “qualifying” vehicle for an operation which is not SOLELY for business purposes it will become “non-qualifying”.

“Non-qualifying” vehicles always remain “non-qualifying”.

## 1.7 Commercial Vehicles

Customs and Excise consider commercial vehicles (vans) as being a business necessity. Because of this they allow companies that are VAT registered to reclaim 100% of the VAT, whether the vehicle is outright purchased, contract hired or contract purchased.

## 1.8 VAT in Contract Hire Terms

Because the vehicles are “qualifying” and the leasing company recovers the VAT on the purchase price, this results in a reduced amount being funded (reducing the rental) and allows partial recovery on the rental (effective rental rule).

## 1.9 VAT in Contract Purchase Terms

Because Contract Purchase is classed as a “finance agreement” not a “hire agreement”, the leasing company cannot reclaim the VAT on the purchase price, and this results in a higher funded amount than contract hire, and higher rentals. The “finance” element of the rental is exempt from VAT.

For VAT Purposes it is assumed that the leasing company sells the vehicle to the customer on day 1 of the Contract Purchase agreement.

Where companies are unable to recover VAT (i.e. there are not VAT registered) they are unable to recover the VAT on any of the vehicle rental. In these cases Contract Purchase may be a more VAT-efficient way of funding the vehicle.

### 1.10 VAT and Disposal

The VAT treatment on the sale of a car will depend on whether or not VAT was recovered when the car was purchased. If the vehicle being sold had no VAT recovered when it was purchased, providing it is sold for less than it was bought for, there is no need to account for VAT in the sale. (If the sale does exceed the purchase price then VAT is only due on the difference).

When a “qualifying” vehicle is being sold (i.e. the VAT was 100% recovered upon purchase) VAT must be charged on the full selling price of the car.

### 1.11 VAT implications on Fuel Benefit

If a company provides fuel to a driver for both business and private use it becomes liable to pay a fixed scale charge (based on engine size). This charge is levied to cover the restriction on the VAT recovery of the private element of fuel usage.

The fixed scale charges range from £10.72 - £21.44 per month.

Diesel 2,000cc or less	£10.72
Diesel over 2,000cc	£13.55
Other 1,400cc or less	£11.46
Other 1,401-2,000cc	£14.44
Over 2,000cc	£21.44

The provision of private fuel is an expensive option for a company, because in addition to paying for the fuel and paying the fixed scale charge it then has to pay a National Insurance contribution on the fuel benefit.

### 1.12 VAT and Accessories

Where no VAT is recovered on the purchase of a vehicle, then any VAT on accessories fitted at the time of purchase is also not recoverable.

VAT is recoverable on any accessories purchased and fitted after delivery of a vehicle, providing the car is used in the business and the accessory remains part of the car.

### 1.13 VAT and Daily Rental

Companies that use self-drive hire or short-term rental cars can reclaim 100% of the VAT subject to the following concession:

- any rental not exceeding 10 days duration
- rentals exceeding 10 days duration where adequate proof is retained to show the car was not used for private or non-business purposes

## 2. CORPORATION TAX

### 2.1 Overview

Corporation Tax is a tax on a company's "taxable profits". Corporation tax is payable: -

Small companies	9 months after the year end.
Large companies (group profits over £1.5m)	quarterly installments commencing 6 months and 13 days after the start of the financial year.

"Taxable Profits" is defined as being (for corporation tax purposes) Total Sales less any allowable expenses and any capital allowances).

NB. Contract Hire rentals are considered an allowable expense (subject to the half the difference rule – see Section 2.5)

NB. Contract Purchase provides capital allowances to the company from day one of the contract; in addition to the "allowable expense" of the interest element of the finance rental and all the additional services rental e.g. maintenance and RAC. The depreciation within the finance rental is not allowable.

### 2.2 What the current rates are

Starting rate	(profits 0 – £10,000)	0%
Lower marginal relief	(profits £10,000 - £50,000)	23.75%
Small companies rate	(profits £50,000 - £300,000)	19%
Upper marginal relief	(profits £300,000 – £1,500,000)	32.75%
Standard rate	(profits over £1,500,000)	30%

### 2.3 Writing Down Allowances or Capital Allowances

Writing Down Allowances are also known as Capital Allowances. They are allowances given by the Inland Revenue which can be offset against a company's taxable profits.

They are provided to "encourage investment" and aim to provide tax relief against depreciation of assets; and are spread over a number of years. Writing Down Allowances are available for investment in Plant and Equipment. (i.e. where a company "buys" the asset).

The current WDA level for standard Plant and Equipment is set at 25% of the capital amount in any one year, on a "reducing balance".

Plant and equipment includes cars, but these are treated slightly differently from other plant.

#### Writing down allowances for plant (excluding cars)

Plant is pooled together and writing down allowances are given on the residual value of the pool.

### **Example:**

We purchase a printing press costing £30,000 and a generator costing £20,000.

#### **Allowance in year 1:**

Take the original capital investment x 25%

$$£50,000 \times 25\% = £12,500$$

The Writing Down Allowance in the first Year would therefore be £12,500

#### **Allowance in year 2:**

The original capital investment *less* the first year's allowance (because it is a "reducing balance")

$$£50,000 - £12,500 = £37,500$$

This gives the Written Down Value of £37,500

Take the Written Down Value x 25% = The Writing Down Allowance in year 2

$$£37,500 \times 25\% = £9,375$$

Therefore the Writing Down Allowance in year 2 would be £9,375

#### **Allowance in year 3:**

Take the previous year's Written Down Value *less* The previous year's Written Down Allowance to give the new Written Down Value

$$£37,500 - £9,375 = £28,125$$

This gives a new Written Down Value of £28,125. However, the press is sold in year 3 for £10,000; therefore reducing the residual of the pool to £18,125.

Take the new Written Down Value x 25% = The Writing Down Allowance in year 3

$$£18,125 \times 25\% = £4,531.25$$

Therefore the Writing Down Allowance in year 3 would be £4,531.25.

Onward Allowances are calculated on the same "reducing balance" basis.

### **Writing Down Allowances for Cars**

The Inland Revenue treats cars slightly differently when it considers the available Writing Down Allowances. It considers that although vehicles are a required investment in a business, the level of car that tends to be purchased exceeds the real requirement. To ensure that it does not support the investment in non-essential executive vehicles the Inland Revenue set what it believed to be an "acceptable" level of investment for a car. The current acceptable level in Inland Revenue terms is £12,000 capital investment.

Cars below £12,000 are not separately identified for tax purposes; they are all shown as one "pool". For more expensive vehicles (those costing more than £12,000) each car is separately identified.

**Example:**

We purchase a Ford Mondeo costing £16,000.

**Allowance in year 1:**

Take the original capital investment x 25%

$$£15,000 \times 25\% = £4,000$$

Because the original capital investment exceeds the £12,000 acceptable limit, and the calculated figure of £4,000 exceeds £3,000, the Writing Down Allowance will be restricted to £3,000.

Therefore the Writing Down Allowance in the first Year would be £3,000

**Allowance in year 2:**

The original capital investment *less* The first year's allowance (because it is a "reducing balance")

$$£16,000 - £3,000 = £13,000$$

This gives the Written Down Value of £13,000

Take the Written Down Value x 25%

$$£13,000 \times 25\% = £3,250$$

Because the Written Down Value exceeds the £12,000 acceptable limit, and the calculated figure of £3,250 exceeds £3,000, the Writing Down Allowance will be restricted to £3,000.

Therefore the Writing Down Allowance in year 2 would be £3,000

**Allowance in year 3:**

Take the previous years Written Down Value *less* The previous year's Written Down Allowance to give the new Written Down Value

$$£13,000 - £3,000 = £10,000$$

This gives a new Written Down Value of £10,000

Take the new Written Down Value x 25%

$$£10,000 \times 25\% = £2,500$$

Because the Written Down Value is now below £12,000 and the calculated figure of £2,500 is below £3,000, the Writing Down Allowance will be not be restricted.

Therefore the Writing Down Allowance in year 3 would be £2,500.

Onward Allowances in further years are calculated on the same "reducing balance" basis.

On disposal of an expensive car (i.e. over £12,000), the proceeds are compared to the written down value and a taxable balancing charge (proceeds higher than written down value) or an allowable balancing allowance (proceeds less than written down value) occurs.

The restrictions exclude low-emission cars (i.e. less than 120g/km output) and electrically propelled vehicles acquired after 17 April 2002, which have no restriction on tax relief i.e. they attract 100% capital allowances.

## 2.4 Rental Allowances

For Tax purposes, a lease is a contract where the car is hired and there is no opportunity to purchase the car.

The basic principle of rental allowances is that a deduction may be claimed for any lease rentals during the period.

However there are adjustments which may be required where either:

- the retail price of the car exceeds £12,000 or
- the rentals are uneven (i.e. there is a significant up front payment or final payment required)

Restrictions to Rental Allowances only affect the hire element of the rental. Where a maintenance package is included, then full tax deduction is available on this element. It is because of this that the Hire and Maintenance elements on a rental are split on an invoice, and on quotes and any supporting documentation.

The restrictions exclude low-emission cars (i.e. less than 120g/km output) and electrically propelled vehicles acquired after 17 April 2002, which have no restriction on tax relief i.e. they attract 100%.

### Example:

We contract hire a Ford Ka costing £9,000 at a monthly rental of £180.

### Rental Allowance in year 1:

Assuming the agreement is from month one, take the monthly rental and annualise it (i.e. times by 12)

$$£180 \times 12 = £2,160$$

Because the retail price is below £12,000 all of the rental is allowable

Therefore the Rental Allowance in the first Year would be £2,160

### Allowance in year 2:

There are no rules around reducing balance with Rental Allowances; whatever is allowable in the first year remains constant through the term of the agreement.  
Therefore the Rental Allowance in year 2 would be £2,160

### Allowance in year 3:

The Rental Allowance in year 3 would be £2,160, and so on.

## 2.5 Half the Difference Rule or the Disallowance Formula

Tax relief for expensive cars is limited. This can be calculated in two ways - by the proportion of the lease which is disallowed (Disallowance Formula), or by the proportion of the lease which is allowable (Half the Difference or Half the Excess Rule).

$$\begin{array}{l} \text{Disallowance Formula} \\ \text{(Irrecoverable element)} \end{array} = \frac{(\text{Retail Price} - \text{£12,000})}{2 \times \text{Retail Price}}$$

$$\begin{array}{l} \text{Half the Difference Rule} \\ \text{(Recoverable Element)} \end{array} = \frac{\text{£12,000} + \frac{1}{2}(\text{Retail Price} - \text{£12,000})}{\text{Retail Price}} \times 100\%$$

Examples of the proportion of rental allowed/disallowed are shown in the table below:

### Retail Price of Car Allowable Rentals Disallowed Rentals

£8,000	100%	0%
£9,000	100%	0%
£10,000	100%	0%
£11,000	100%	0%
£12,000	100%	0%
£13,000	96.2%	3.8%
£14,000	92.9%	7.1%
£15,000	90%	10%
£16,000	87.5%	12.5%
£17,000	85.3%	14.7%
£18,000	83.3%	16.7%
£19,000	81.6%	18.4%
£20,000	80%	20%
£21,000	78.6%	21.4%
£22,000	77.3%	22.7%
£23,000	76.1%	23.9%
£24,000	75%	25%

Historically "Retail Price" was used as the "costs" figure by the Inland Revenue. They have now agreed that "Retail Price" can mean the cost to the leasing company.

In real terms this is not going to save customers a huge amount of cash (typically around £100-£150 over a 36 month contract based on standard discounts). These savings may be substantially higher where larger discounts are given, especially when multiplying this across a sizeable fleet.

**Example:**

We contract hire a Ford Mondeo with a retail price of £16,000, at a monthly rental of £360.

**Allowance in year 1:**

Take the monthly rental and annualise it (i.e. times by 12)

$$£360 \times 12 = £4,320$$

Because the Retail Price exceeds the £12,000 acceptable limit the "half the difference" rule (or the disallowance formula) needs to be applied.

$$= \frac{£12,000 + \frac{1}{2}(£16,000 - £12,000)}{£16,000} \times 100\%$$

$$= \frac{£12,000 + \frac{1}{2}(£4,000)}{£16,000} \times 100\%$$

$$= \frac{£12,000 + £2,000}{£16,000} \times 100\%$$

$$= \frac{£14,000}{£16,000} \times 100\%$$

$$= 87.5\%$$

Therefore 87.5% of the annual rental is allowable as a Rental Allowance

$$£4,320 \times 87.5\% = £3,780$$

Therefore the Rental Allowance in year one is £3,780

**Allowance in year 2:**

There are no rules around reducing balance with Rental Allowances; whatever is allowable in the first year remains constant through the term of the agreement.

Therefore the Rental Allowance in year 2 would be £3,780

**Allowance in year 3:**

The Rental Allowance in year 3 would be £3,780 and so on.

## 3. OTHER TAX POINTS

### 3.1 Overview

There are other forms of taxation one needs to be aware of, along with some subjects which consider more than one area of taxation.

### 3.2 Breakeven Point

How do the VAT and corporation tax rules fit together? Because of the expensive car tax restriction, there is a point where the tax advantages of leasing are outweighed by the effects of the restrictions, making purchase the most tax effective method of funding. Finding this point is almost impossible without using sophisticated financial modeling tools.

However, as a very rough guide, and making a number of assumptions, the breakeven point, for a normal trading company paying corporation tax at the standard rate, is in the region of £20,000 - £25,000, i.e. it would normally be better to lease cars up to that price and purchase or contract purchase them at higher prices.

The break-even point is sensitive to the rate of business tax, the rate of VAT recovery, the accounting year-end, residual value timing, payment profiles and interest rates. The most sensitive of these is VAT recovery.

### 3.3 Tax and the Van

A van for income tax and corporation tax purposes is a vehicle that is:

- Built primarily to convey "goods of any description" (excluding people!!)
- Not a motor cycle
- Of a design weight not exceeding 3,500kg

Vans have no upper value restriction regarding the 25% of capital cost allowable in Writing Down Allowances.

Expenditure on Vans will qualify for a first year Writing Down Allowance of 40%. For subsequent years these revert back to 25%. This beneficial rate covers companies meeting the following criteria:

- Turnover less than £22.8 million
- Assets less than £11.4 million
- Less than 250 employees

For VAT purposes, a van is not defined in its own right as there are no special rules for vans alone. What is more relevant is the VAT definition of a car, as follows:

- Constructed or adapted solely or mainly for the carriage of passengers (less than 12)
- Has to the rear of the driver's seat roofed accommodation which is fitted with side windows or which is constructed or adapted for the fitting of side windows.

Companies can reclaim all the VAT when purchasing, contract purchasing or leasing a van, subject to their own VAT position.

### 3.4 Benefit in Kind Taxation

The Inland Revenue recovers "benefit in kind" taxation where a company provides a specific benefit to an employee. To enable the recovery of this tax a "value" is apportioned to the taxable benefit and the employee will be liable for "tax" at their rate of taxation on this "value".

#### Company Car Taxation

The taxable benefit of a van currently operates with a flat rate benefit of £500 (£350 if the van is over 4 years old). The Inland Revenue is reviewing this practice.

The taxable benefit of a company car is based upon a percentage of the manufacture's published list price of the car (plus any accessories and delivery charges) graduated according to the level of CO2 emissions.

Employers only need to establish the list price (as they do now), the fuel type and the CO2 emission level when the car is first made available as a company car to be able to calculate the tax and class 1A National Insurance contributions due. Business mileage no longer needs to be recorded for P11D purposes.

The minimum tax starts at 15% of the list price for vehicles with emissions of 145 grams per kilometre and rises in 5 gram bands to a maximum of 35%. Diesels attract a further 3% supplement to take into account damaging particle emissions (to a 35% maximum).

For cars registered before January 1998 the tax charge will be based on engine size as there are no reliable sources of CO2 emissions data before this date.

#### Table of Percentages by CO2 Output:

2004/05 g/km	% of tax list price	
	Petrol	Diesel
145	15	18
150	16	19
155	17	20
160	18	21
165	19	22
170	20	23
175	21	24
180	22	25
185	23	26
190	24	27
195	25	28
200	26	29
205	27	30
210	28	31
215	28	32
220	30	33
225	31	34
230	32	35
235	33	35
240	34	35
245	35	35

Special rules will apply to eco-friendly vehicles. These rules include the following provisions:

- Cars powered by electricity only get a 6% reduction in the taxable percentage of list price, effectively giving a taxable benefit of 9% of list price. (As electric cars do not normally produce CO<sub>2</sub> they would normally qualify for the basic 15% taxable benefit band)
- Cars using hybrid electricity and internal combustion engines will get a 2% reduction in the appropriate petrol/electric engine percentage benefit rate and a further 1% discount will apply for every 20g/km that their emissions are below the minimum CO<sub>2</sub> output level.
- Cars running on gas (e.g. LPG Liquefied Petroleum Gas and CNG Compressed Natural Gas) with a recognised gas-based CO<sub>2</sub> output will get a 1% reduction on the percentage benefit rate and a further 1% discount for every 20g/km that their emissions are below the minimum level.

Where cars have no approved CO<sub>2</sub> emissions data the following applies:

Engine Size	Pre-1 Jan 1998 car	1 Jan 1998 or later car
0 – 1400 cc	15%	15%
1401 – 2000 cc	22%	25%
2001 cc and over	32%	35%

### Fuel Benefit

From 6 April 2003 a new system of taxing private fuel has been introduced, based upon the CO<sub>2</sub> output of the car.

From April 2003 a company car driver receiving the benefit of free private fuel will be taxed on £14,400 multiplied by the same CO<sub>2</sub> derived percentage used to calculate the taxable benefit of the car itself. For example, a car with a CO<sub>2</sub> output of 180g/km would be taxed on 22% of the fixed value (see car benefit table).

Where free fuel ceases to be provided to an employee during the tax year, they will be entitled to pay only the proportion of the full annual tax charge related to the part of the year until the free fuel stopped.

The amount of Class 1A National Insurance Contributions due will be proportionally reduced to the same extent. However, receiving free fuel again later in the same tax year will prevent any apportionment.

### 3.5 Vehicle Excise Duty

From April 2003 the rates of vehicle excise duty are:

Vehicles registered on or after 1 March 2001:

CO <sub>2</sub> g/km Fuels*	Clean	Petrol	Diesel
Up to 100	55	65	75
101 – 120	65	75	85
121 – 150	95	105	115
151 – 165	115	125	135
166 – 185	135	145	155
186 plus	155	160	165

\* Road fuel gas (LPG/CNG), bi-fuel and dual fuel cars using hybrid technology.

Vehicles registered pre 1 March 2001:

Engine below 1,549cc    £110  
Engine over 1,549cc    £165

All new LCVs with no CO2 output data will have a charge of £160.

Vans that meet Euro IV emissions standards will receive a £55 reduction from March 2003.

### 3.6 Personal Taxation – Income Tax (2004/05)

#### Income Tax Rates

The first taxable income of £2,020 is taxed at 10%.

The basic rate of income tax is 22% and applies between £2,021 and £31,400.

The higher rate of income tax applies to taxable income over £31,400, and is 40%.

#### Savings income

Up to £2,020 is taxed at 10%.

Between £2,021 and £31,400 is taxed at 20%.

Over £31,400 is taxed at 40%.

#### Dividend Income

Up to £2,020 is taxed at 10%.

Between £2,021 and £31,400 is taxed at 10%.

Over £31,400 is taxed at 32.5%

#### Personal Allowances

Individuals are allowed to earn a certain amount of income (in the form of allowances) upon which they do not pay tax.

Allowance	Amount per year
Personal Allowance	£4,745 (£4,615 2003/04)
If between 65 & 74 years of age : Personal Allowance	£6,830 (£6,610 2003/04)
If aged 75 or over : Personal Allowance	£6,950 (£6,720 2003/04)

### 3.7 Implications for Employer National Insurance Contributions

From 6 April 2003 the rate of employer's National Insurance Contributions on benefit in kind increased from 11.8% to 12.8%. NIC on company cars is calculated on the same amount as the driver's taxable benefit. Using an example of a typical £15,000 car with a CO2 output of 180g/km, the taxable benefit would be 22% of list price (see the car benefit table), or £3,300, with NIC due on this of £422.40 p.a., an increase of £33. Although the increase is not significant on an annual basis for one car, taken over a typical 3 year period, the increase equates to £4,950 increase on the running costs of a 50-car fleet, £24,750 to a 250 car fleet and £99,000 to a 1,000 car fleet.

### For Class 1 (2004/05)

Earnings threshold	£91 p.w.
Upper Earnings Limit (UEL)	£610 p.w.

Employee Rate below UEL	11%
Employee Rate above UEL	1%

Employer Rate: Class 1	12.8%
Employer Rate: Class 1A (Benefit in Kind)	12.8%

### 3.8 Tax-Free Mileage and Tax Relief

From 6 April 2002 the Inland Revenue Authorised Mileage Allowance Payment (AMAP) Rates became a flat rate of 40 pence per mile for the first 10,000 business miles per annum, irrespective of engine size, reducing to 25 pence per mile for business travel in excess of the first 10,000 miles.

The mileage rates that apply to the AMAP system have also become the amount that drivers can claim as a tax deduction for business use of their own cars.

Where drivers are reimbursed for business fuel but retain their company car the tax free pence per mile rates are as follows:

Engine Size	Petrol Engine	Diesel Engine	LPG
Up to 1400 cc	10p	9p	7p (6p 2003/04)
1401 – 2000 cc	12p	9p	8p (7p 2003/04)
2001 cc or more	14p	12p	10p (9p 2003/04)