

UK Car & Fuel Allowance

What is a Car Allowance?

This allowance was originally developed out of the need for certain staff (for example, sales representatives or directors) of particular businesses to promote the image of the company, by being seen to drive the "right car" without an employer providing a company car.

How Much?

The amount paid is usually based on both the company and employee's expectations of the type, make and model of car required; there is usually a clause in the contract of employment specifying this.

A car allowance payment is normally only offered to select employees and is subject to both Income Tax and National Insurance. Taking this into consideration, it would be reasonable to pay an annual amount of between £6,000 and £12,000 to a senior employee.

What is a Fuel Allowance?

Under HM Revenue & Customs (HMRC) rules in the UK, a fuel allowance per mile can be paid tax-free to employees using their own cars for business travel. From April 2011, the maximum tax-free amounts are as follows:

Vehicle	Up to 10,000 Miles	Above 10,000 Miles
Cars & Vans	45 pence	25 pence
Motorcycles	24 pence	24 pence
Bicycles	20 pence	20 pence

How Much?

It's usual in the UK for larger companies to pay the maximum tax-free amounts quoted by HMRC, although it could be considered reasonable to pay less. Where the employer pays below these rates, the employee can claim tax relief on the difference directly from HMRC.

A company can also pay more than shown in the table above; however, anything paid over these amounts would be taxed as a 'Benefit in Kind' and appear on the employee's 'Benefit in Kind' Form P11D.

Determining the Fuel Rate

If an employee has a company car for which the company also reimburses the fuel for business travel, the fuel rates quoted by HMRC, as of 1 September 2016, are based on the size and fuel type of the car, are as follows:

Engine Size	Petrol (per mile)	LPG** (per mile)
Up to 1400cc	11 pence	7 pence
1401 – 2000cc	14 pence	9 pence
Above 2000cc	21 pence	14 pence

The amounts are slightly different for diesel cars:

Engine Size	Diesel (per mile)
Up to 1600cc	9 pence
1601 – 2000cc	11 pence
Above 2000cc	13 pence

Hybrids

Hybrid cars can be treated as either petrol or diesel cars for this purpose.

Rate Changes

Car and fuel allowance rates are reviewed by HMRC on a frequent basis and changes can take effect every quarter.

When changes to the company car fuel rules come into effect, HMRC permit the existing rates to be used for up to one month from the date the new rates apply.

The rates above are subject to periodical changes and we would therefore recommend getting in touch with us to ensure you are working with the most up to date calculations.

Updated June 2017. The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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