

Directions

March 2008 | Managers

Fuel Benefit-in-Kind Tax to Increase from 6th April

HMRC are raising the nominal figure used for calculating benefit-in-kind ("BIK") tax on private fuel from £14,400 to £16,900 on 6th April.

Changes to 'free fuel' benefit tax in the 2008-09 tax year:

- Private fuel benefit tax will rise from April 6th.
- The tax is levied on the fuel. There is no tax on fuel cards.
- Fuel cards are an effective tool for controlling CO₂ and business mileage costs.
- Fuel duty is due to increase by 2p per litre in October, having been postponed in the 2008 budget.

From 6th April 2008, HMRC will raise the nominal figure used for calculating benefit-in-kind tax on fuel provided for personal motoring from £14,400 to £16,900.

This is the first time the amount has been increased since its introduction in 2003. During this time, retail fuel prices have increased by 34%.

Driver by driver assessments

Private fuel benefit liability has to be calculated on a driver-by-driver basis as each decision depends on the driver's annual private mileage, their marginal rate of tax, their car's CO₂ emissions, its actual fuel consumption, and, finally the price of fuel. Fuel prices are due to rise by 2p per litre in October 2008 when duty on petrol and diesel increases.

If drivers prefer to give up private fuel benefit, they can do so at any time during the tax year, only having to pay BIK tax for the portion of the year in which they received the benefit.



To ensure the effective management of fuel consumption and to support CO₂ reporting, it is essential that any driver opting out of the free fuel benefit continues to use a fuel card. Used in conjunction with the Arval Mileage Capture System, the fuel card is also the easiest and most cost effective way to manage business / private mileage splits and reimbursement.



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Example 1: Private fuel benefit for a 2.0 litre diesel car

The following example illustrates the effects of the BIK changes on an employee driving a Ford Mondeo 2.0 diesel emitting 156g/km of CO₂ with a fuel consumption of 47mpg.

	2007-08 Tax Year	2008-09 Tax Year
Liability	£3,024 (£14,400 x 21%)	£3,718 (£16,900 x £22%)
Tax due:		
22% taxpayer	£665	20% Tax £743.60
40% taxpayer	£1,210	£1,487

Note that the percentage figure for calculating company car BIK, which also applies to fuel benefit, increases by 1% for vehicles registered after 6th April 2008. This follows the lowering of the start point of the CO₂-based BIK scale to 120g/km. Additionally, from the 5th April 2008, the basic rate of income tax will drop to 20% from 22%.

In 2008-09, therefore, the higher rate taxpayer in the above example would pay £210 more tax on their private fuel benefit (or £277 if the car is registered after 6th April).

In 2007-08, a driver on the higher 40% income tax rate needed to cover at least 12,140 personal miles to make the fuel perk worthwhile (based on the Mondeo's official combined fuel consumption of 47mpg and assuming the driver paid an average cost of £1.03 per litre). The break-even point in the same car during the 2008-09 tax year will rise to 13,100 miles (assuming that the price of diesel fuel averages £1.12 per litre).

Example 2: Private fuel benefit for a diesel car emitting 119g/km of CO₂

The following example illustrates the effects of the BIK changes on an employee driving a BMW 118d diesel emitting 119g/km of CO₂.

	2007-08 Tax Year	2008-09 Tax Year
Liability	£2,592 (£14,400 x 18%)	£2,198 (£16,900 x £13%)
Tax due:		
22% taxpayer	£570	20% Tax £439.40
40% taxpayer	£1,037	£879

A new BIK band (10% for petrol and 13% for diesel) will be introduced on April 6th for cars emitting less than 120g/km of CO₂. The band applies only to cars registered after 6th April 2008. A driver of such a vehicle will pay substantially less tax on the free fuel benefit than a driver of an identical vehicle registered before 6th April, despite the increase in the calculation figure to £16,900. The employer would also save proportionally on National Insurance contributions.

In 2007-08, a driver on the higher 40% income tax rate, driving a BMW 118d, needed to cover at least 13,906 personal miles to make the fuel benefit worthwhile (based on the BMW's official combined fuel consumption of 62.8 mpg and assuming the driver paid an average cost of £1.03 per litre). The break-even point in the same model registered during the 2008-09 tax year will fall to 10,839 miles (assuming that the price of diesel fuel averages £1.12 per litre).

What to do now

Employees who receive private fuel benefit should check to see whether the cost of their private fuel is higher or lower than the BIK charge in order to evaluate the advantages or disadvantages to themselves of their private fuel benefit.



Drivers should factor into their decision any changes they expect in the coming year to their private mileage, or their car or the price of fuel, as these can all make a difference to whether or not the benefit is worthwhile.

Avoid taking delivery of sub-120g/km vehicles registered before 6th April, as these will continue to be taxed for BIK at 15% or 18% instead of the new rates of 10% and 13% available from that date onwards.

Private fuel and fuel cards: Q&A

Q. Is there a deadline for drivers to opt out of private fuel benefit for the coming tax year? What if they miss it?

Employees can opt out of private fuel benefit at any time during the tax year, so there is no cut-off point for giving up the benefit. When and if they opt out, they only have to pay tax for the time that they received private fuel. Of course, once an employee decides to opt out and the quicker they make new arrangements, the less private fuel benefit tax they will pay.

Q. Our accountants have advised us to stop offering the private fuel benefit altogether. Is now the time to do this?

A. Private fuel is still regarded by many thousands of employees as a valuable benefit. If you withdraw it unilaterally, your business may risk losing skilled and experienced personnel who depend on the benefit to cover their commuting costs. A best practice approach is to review each case individually according to the employee's annual private mileage and his or her marginal rate of tax, their car's CO₂ emissions and its actual fuel consumption, and the price of fuel. You can then come to a mutual arrangement with each driver.

Q. Can our drivers avoid paying private fuel tax if we cancel their fuel cards and they submit fuel receipts instead?

A. Private fuel benefit tax is levied on the provision of the fuel, not the fuel cards themselves, so there is nothing to be gained by cancelling the cards while still continuing to pay for fuel for personal motoring. In fact, fuel cards offer businesses much more than simply facilitating free fuel benefit. They are one of the most powerful fleet cost control tools available to businesses of all sizes. Giving fuel cards only to private fuel recipients and van drivers can mean missing out on a golden opportunity to take maximum control over your company's fuel costs.

Q. If we give fuel cards to drivers who are not eligible for private fuel benefit, how do we distinguish between business and private fuel use?

A. You can issue fuel cards to all your drivers. They use the cards to buy all their business and private fuel. Your company deducts the cost of their fuel purchases from their salary, less the value of any fuel used for business purposes, for which the drivers must submit mileage claims. The administration of such a system is very straightforward and can be reduced still further using Arval's online Mileage Capture System. The benefits of fuel cards include far better management information on fuel purchasing, reduced paperwork and improved VAT recovery.