

New Rules on Van Benefit in Kind from 6 April 2007

New benefit in kind rules apply for vans from 6 April 2007 which could result in a significantly higher tax charge for some of your drivers, especially if they unknowingly use their vans for prohibited private purposes.



The current benefit in kind for an employee with any non-restricted or significant private use of a company van is £500 per tax year (£350 if the van is more than 4 years old at the end of the tax year). From 6 April, the benefit value for the same scenario will rise to £3,000 per tax year (regardless of vehicle age) plus a £500 supplement if fuel is also provided for private use.

For a basic rate taxpayer, this could lead to an additional tax liability of almost £700 (over £1,200 for a higher rate taxpayer) for the employee as well as an increased Class 1A National Insurance liability for your company.

Private use (including use by family members of the employee) can however be disregarded (from 6 April 2005) if it is 'insignificant'. This is not defined in the statute Income Tax Earnings and Pensions Act (ITEPA) 2003 but HMRC have published their view on the situation as follows:

Examples of insignificant use:

An employee who

- Takes an old mattress or other rubbish to the tip once or twice a year
- Regularly makes a slight detour to stop at a newsagent on the way to work
- Calls at the dentist on his way home.

Examples of significant use:

An employee who

- Uses the van to do the supermarket shopping each week
- Takes the van away on a week's holiday
- Uses the van outside of work for social activities.

A second more practical exemption from private use applies in many circumstances. This is the 'restricted use exemption' brought in by Schedule 14 to the Finance Act 2004 and applies when the employer provides an employee with a van mainly for the purposes of business travel. This strictly prohibits private use, other than commuting to and from work, of the van by the employee (and their family).

In the case of shared vans, the van benefit (including any fuel benefit) is apportioned on a just and reasonable basis between those employees.

Remember

- Drivers pay no tax at all if there is no private mileage, this includes driving the van between home and work
- Employers are not obliged to provide private fuel benefit to drivers. If you do provide private fuel, Arval's fuel cards and online Mileage Capture System can help to record your drivers' private mileage, enabling the driver to reimburse the company for the cost of their private fuel.

To make sure your employees do not incur unwanted tax bills, HM Revenue & Customs (HMRC) suggests employers keep a record to show there has been no private use. We recommend you inform your drivers of these new rulings as soon as possible.

For More Information

You can find additional HMRC guidance at www.hmrc.gov.uk/vans