



Taxation of cars and vans

The HMRC rules regarding the taxation of vehicles are complex and differ depending on the type of vehicle in question. It's therefore important to correctly identify a vehicle as either a car or a van, and to know which category double-cab pick-ups fit into.

Vans

Vans are treated much more favourably for benefit-in-kind tax (BIK), VAT and corporation tax purposes.

For BIK, a flat rate benefit is applied, and the circumstances in which there can be no BIK arising are more flexible than for cars. In most circumstances, VAT can be reclaimed on commercial vehicles that are to be used in a taxable business.

Cars

The BIK for cars are based on the individual specifics of the car, including list price, CO2 emissions and fuel type.

You can't usually claim back the VAT on the purchase of a car, unless the vehicle isn't available for private use and sufficient records are kept to prove this.

Double-cab pick-ups

These can fall within either the van or car category, depending on the vehicle's payload.

Payload for these rules means gross vehicle weight (or design weight) less unoccupied kerb weight. Care is needed when looking at manufacturers' brochures as they sometimes define payload differently.

Tax planning

We provide specialist tax planning advice to clients.

Comprehensive planning is imperative to make sure your business is tax efficient year on year.

Tax relief

If the vehicle you want to buy meets the definition of a car (see overleaf), then it will not attract the Annual Investment Allowance.

Capital allowances will only be given at the main rate, or, if the vehicle is classified as 'high emissions', relief will only be available at the lower special rate. However, brand new electric cars may attract a 100% first year allowance if purchased before 31 March 2023.

If the vehicle is classified as a van then the Annual Investment Allowance can be claimed, meaning 100% tax relief is available straight away, or, if that has been used elsewhere, the cost will get relief at the main rate.

New vans purchased between 1 April 2021 and 31 March 2023 could potentially qualify for the super-deduction which gives an enhanced 130% deduction for companies only.

Vehicle definitions

VAT

For VAT purposes, a car is defined as any motor vehicle which is constructed or adapted mainly for carrying passengers, and it must have side windows to the rear of the driver's seat.

Vehicles are not cars by definition if they are:

- Capable of accommodating only one person or suitable for carrying 12 or more people including the driver
- Caravans
- Ambulances
- Prison vans
- Special purpose vehicles, such as ice cream vans, mobile shops, hearses, bullion vans etc
- Breakdown and recovery vehicles
- Vehicles with a payload of one tonne or more
- Vehicles of not less than three tonnes of unladen weight

The BIK and corporation tax rules are similar to those for VAT but not identical.

Benefit-in-kind

In deciding whether or not a particular vehicle counts as a car for car benefits purposes, the starting point is that every mechanically propelled road vehicle is a 'car' unless it is:

- A goods vehicle (a vehicle of a construction primarily suited for the conveyance of goods or burden of any description)
- A motorcycle
- An invalid carriage
- A vehicle of a type not commonly used as a private vehicle and unsuitable to be used as such

Vans would normally fall within the first exemption.

However, some double-cab pick-ups are equally suited to the conveyance of people and therefore, cannot meet the test of being primarily for the conveyance of goods.

Because of the confusion caused by this, HMRC have aligned the tests for double-cab pick-ups to the VAT legislations and therefore, under this measure, a double-cab pick-up that has a payload of one tonne or more is accepted as a van for benefits purposes.



We provide specialist tax planning advice to our clients. Please get in touch to see how we can help you."



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