Sibbalds
CHARTERED ACCOUNTANTS

PayLessTax
2024 Vehicle **Special**

The Margin Scheme

In many cases a car dealership opting for the second-hand vehicle VAT Margin Scheme (VMS) is a win win for both the business and their customer.

In basic terms, the way VMS works is that VAT is charged not on the full selling price at 20% but instead on the margin between what the dealer paid for the vehicle and what the business subsequently sold it for. 1/6th of that margin is then paid over to HMRC.

For example
Rudgie Car Dealership buys a second-hand car off Mary for £10,000 and sells it on to Ethan for £13,000.

The margin is £3,000. Rudgie pays £500 out of that margin to HMRC in VAT. The business make £2,500 on the deal.

If the dealership had not opted for VMS then Rudgie would have to charge the customer VAT of 20% on the £13,000. Ethan would have to pay £15,600 (£13,000 + VAT £2,600). He might decide to go elsewhere for the car of his dreams. Either that, or Rudgie is forced to drop their price to accommodate the VAT hike, thereby reducing its profit.

It might not always be the best thing to opt for VMS. If Ethan is a VAT registered business it might be better to charge him £15600 as he might be able to claim back the £2,600 VAT, whilst Rudgie ends up with a profit of £3,000 as opposed to £2,500.

Secondly there are conditions which have to be met before the dealer can opt for the VMS as well as rules for calculating the correct purchase and selling price in order to reach the appropriate margin figure.

- It must be a second-hand vehicle.
- Cars imported from outside the UK cannot be sold under the VMS in Great Britain. Under the Northern Ireland Protocol, dealers there can use VMS for vehicles imported from within the EU.
- **VAT must not be shown separately on either the purchase or sales invoices**.
- The dealer cannot claim back the VAT on buying the car and the buyer equally can't do so when the car is sold to them.
- **When working out the purchase price under VMS the dealer must not add costs to the purchase price as regards business overheads, repairs, parts and accessories.**
- If the dealer buys a car and then surrenders its unexpired road fund licence in order to obtain a refund, if applying the VMS they must not reduce the purchase price by the amount of that refund.
- The selling price under VMS should not be changed if the dealer sells an eligible vehicle and takes another in part exchange.
- The cost of a linked insurance product or warranty by the dealer should not be included in the selling price when calculating the Margin under VMS.

When using the VMS it is imperative that the dealer keeps detailed records to prove the vehicle qualifies and the calculation of the VAT due under the scheme has been calculated correctly, using the appropriate purchase and sale price figures. **Insufficient evidence could result in the dealer being hit for an additional VAT charge plus interest and penalties**.

TIP...
If you need help in understanding and applying VMS effectively please do not hesitate to contact us.

Pool Car Assertion

If a business owned car made available to employees can be successfully treated and accepted as a 'pool' car then those people who use that vehicle will avoid a taxable car benefit charge arising on them.

However the devil is in the detail when looking at whether or not the pool car criteria is met. HMRC, when carrying out a Pay As You Earn enquiry on a business, often find that not all the conditions have been fulfilled resulting in the removal of the pool car status and tax, interest and penalties being levied usually on either the business or the individual employees or both.

For it to be deemed to be a pool car five conditions must all be met:

- It must be made available and actually used by more than one employee.
- As regards each individual, the car must be made available by reason of that person's employment.
- The vehicle is not ordinarily used by one employee to the exclusion of the others.
- As regards each employee, any private use of the car must be merely incidental to that person using it for business purposes.
- It should be kept on the business premises when not in use.

To help support the view that the car fulfills the conditions laid down by the legislation a business might want to consider:

a) Insuring the car for business use only.

b) Have a stated policy stipulating that private use of the vehicle is prohibited or is allowable subject to it being merely incidental to the business use. For example, an employee taking the car home in readiness for a long onward business journey early next morning. This policy should be shared with all employees.

c) On top of, or instead of, a stated policy, prohibit private use within the employee's contract.

d) Keep mileage records showing the business mileage, the purpose of each trip undertaken and by whom. This should be checked back to the mileage recorded on the car on a regular basis.

TIP... If you would like any help or advice on setting up a pool car arrangement or to review whether or not you are currently meeting the 5 conditions in respect of an existing vehicle please do not hesitate to contact us.

The Demise of the Aspirational Van

Titanic Ltd provide their employee, Lindsay with a vehicle and fuel for both private and business use. It was registered on 6th April 2024 and had a list price of £35,000 with emissions of 165 Co2g/km. Lindsay is a 40% taxpayer.

Looking at the tax year ending 5th April 2025:

If it is a 'van':
Lindsay would pay van benefit tax of £1,584 and van fuel benefit tax of £303. Titanic Ltd would incur a Class1A national insurance (NI) charge of £651.

If it is a 'car':
Lindsay would suffer a car benefit tax of £5,180 and a car fuel benefit tax of £4,114. Titanic Ltd would have to stump up Class1A NI of £3,206.

Bearing in mind the tax and NI differential between the two, it is perhaps not too surprising that both the company and Lindsay might prefer the company vehicle to be deemed to be a van whereas HMRC may have other ideas.

It is important to note that it is irrelevant what the vehicle is being used for when deciding whether or not it is a car or van. The legislation bears down on the purpose behind how the vehicle has been built. At the time it is being made available to the employee is it's construction 'primarily' for the purpose of carrying goods or burden of any description? This factors in any adaptation carried out on the vehicle between acquiring and providing it to the employee. So if the business has purchased a van then altered it to include a second row of removable seats with windows added to the side, then HMRC and the courts are more likely to take the view it is now a car, resulting in a higher tax and NI burden.

The courts have also put a great emphasis on the words 'primarily used'. If, when taking into account all the factors surrounding the vehicle, the construction is deemed to be 'marginally' more for the purpose of carrying goods it will still be regarded as a car and not a van for tax purposes.

Up until the Autumn Budget 2024 it has been accepted that a double cab pickup (DCPU) with a payload of 1 tonne (1,00KG) or more can be treated as a van.

However, the Chancellor of the Exchequer has stated that from 1st April 2025 for Corporation Tax and 6th April 2025 for Income Tax:

- **DCPUs will be treated as cars for the purposes of capital allowances, benefits in kind and some deductions from business profits.**
- **The existing enhanced capital allowances treatment for vans will apply to those businesses who buy DCPUs before April 2025.**
- **Transitional benefit in kind (BIK) arrangements will apply for employees where the employer has purchased, leased, or ordered a DCPU before 6th April 2025. The present van BIK tax provisions will apply until the earlier of disposal, lease expiry, or 5th April 2029**.

The demise of the DCPU as an 'aspirational' van for tax purposes is therefore fast approaching.

TIP... If you have a doubt regarding your 'van' please don't hesitate to contact us to carry out a review.

Clean Air Zone Charges (CAZC)

Clean air zones have popped up all over the UK, the most talked about being the Ultra Low Emissions Zone in London charging £12.50 a day for vehicles who fail the CO^2 emissions test. The CAZC rules varies from place to place, but the common denominator is that it can have a negative impact upon businesses and, in some cases, their employees.

Is there any tax respite for those businesses and employees who fall foul of the CAZC? The answer, as usual with tax, is that it depends.

- **If you are self-employed and the journey is exclusively for the purpose of the trade, the expense is allowable as a deduction within your accounts**, thereby reducing your tax liability.

- **If you are an employer and the vehicle is in your business name and you pay the CAZC, either direct or by reimbursing the employee, there are no tax consequences for the employee**.

- If it is an employee's vehicle and the purpose of the journey is wholly for business purposes, then there should be no taxable benefit in kind charge on the individual irrespective of whether the employer meets the charge direct or reimburses the employee.

- If it is not a business trip and the employer settles the charge directly with the relevant authority once it has been raised, then it should go through the PAYE system and be liable to tax and Class 1 employers and employees national insurance (NI).

- **If the employer is reimbursing the employee for the cost of the charge, it is likely to be treated as a benefit in kind which would be liable to tax and Class1A NI**. If you payroll your benefits the tax could be collected through the PAYE system. If not, it will be reflected on form P11D and the employee would pay the tax through the self-assessment system.

- If it is a legitimate business trip but your employer is not willing to reimburse you for the cost of the CAZC, either in whole or in part, then similar to toll fees, parking fees and congestion charges you should be able to claim tax relief on the cost incurred. This will be at your marginal tax rate so the full amount of the expense will not be recovered.

- The claim for the CAZC should be on top of any normal mileage allowance claim to be made.

TIP... It is important to keep proper records to substantiate the cost incurred and the business purpose behind the journey itself. If you need any help please do not hesitate to contact us.

We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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