

Running on fumes



As petrol costs continue to soar (the average cost of a litre of diesel hit 173.4p at the time of writing), employers may soon start to receive requests from employees for an increase in the amount that business mileage is reimbursed at. Laurence Tittensor has considered the Employment Tax implications further.

Employee using their own car

Currently, an employer may reimburse employees for business mileage undertaken in their own car at a rate of £0.45 for the first 10,000 business miles and £0.25 thereafter without a liability to income tax or national insurance contributions arising. These rates are designed to cover the costs of fuel and other running costs (such as wear and tear) incurred by employees when they use their own vehicles for business and have not changed since April 2011. This compares with Advisory Fuel Rates for company cars which are updated quarterly.

Given current fuel prices and inflation, a rate of £0.45 per business mile may not be sufficient to cover the costs actually incurred by employees. Where employers pay mileage rates in excess of the £0.45/£0.25 rates, any excess is subject to Class 1 NIC and income tax.

Company Cars

Where an employee has a company car, the employer can either pay for all of the employee's fuel (for example, using a fuel card), or could reimburse employees for the cost of business miles undertaken.

If an employee is provided with a fuel card for both private and business mileage, a taxable benefit in kind arises which is calculated by multiplying the benefit in kind percentage for the car (based on

the company car's CO2 emissions) and a set fuel benefit charge. The employee pays income tax and the employer pays class 1 A NIC on the value of this benefit. Whilst the benefit in kind figure is unaffected by the rising cost of fuel, the cost to the employer is likely to increase and, depending on the quantum of private mileage undertaken, employers should review whether fuel cards remain a cost effective benefit.

An alternative is for employees to pay for their company car fuel personally and submit expense claims to show the business mileage undertaken. In this scenario, employers may reimburse employees for business mileage undertaken in line with HMRC's published advisory fuel rates, without an income tax or NIC liability arising. These rates are updated by HMRC quarterly and are designed to reflect the actual cost of fuel incurred. The rates were last updated on 1 March 2022 and will not therefore reflect the recent disruption to fuel prices. As a result, employees may be paying more than the advisory fuel rates for business mileage.

HMRC note that no income tax or NIC liability will arise if a higher rate is used, provided that the employer can demonstrate that the amounts reimbursed do not exceed the cost of the fuel used for business mileage. Contemporaneous evidence of this will therefore be needed.

If you would like to discuss this further or would like assistance in calculating the cost/benefit of providing fuel for employees please contact Laurence Tittensor.