

VAT on Fuel Costs

Company car, but no private fuel

In Topical Tips 84 we dealt with the tax-free mileage rate that can be paid to employees to reimburse them for petrol on business journeys when using a company car. It specifically examined the example of an employee who has a company car but chooses to take no fuel benefit, merely claiming the petrol cost for business journeys as they arise. In Topical Tips 77 we dealt with the new rules for a VAT claim that can be made by the employer in this circumstance.

No company car, but business mileage

VAT can also be reclaimed on the petrol element of the authorised mileage rates which can be paid tax-free to employees when using their private vehicle for company business. These authorised mileage rates remain as:

	Up to 10,000 miles	Over 10,000 miles
Cars	40p	25p
Cycles	20p	20p
Motorcycles	24p	24p

The driver can also claim a tax-free amount of up to 5p per mile for each passenger.

Company car and private fuel

Where an employer provides a company car and provides private fuel they can claim back the VAT incurred (subject to the employer's VAT status) but they are required to adjust their VAT returns according to a scale charge which represents the assumed VAT on the private element of the VAT reclaimed on fuel. These are revised annually and the following table shows the current adjustments that should be made:

	12 month output	VAT per car	3 month output	VAT per car	1 month output	VAT per car
Diesel						
<= 2,000cc	£1,040	£154.89	£260	£38.72	£86	£12.81
> 2,000cc	£1,325	£197.34	£331	£49.30	£110	£16.38
Other						
<= 1,400cc	£1,095	£163.09	£273	£40.66	£91	£13.55
>1,400, <= 2,000cc	£1,385	£206.28	£346	£51.53	£115	£17.13
>2,000cc	£2,035	£303.09	£508	£75.66	£169	£25.17

The above scale charges are per vehicle, effective from 1 May 2006.

It's not that simple!



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- Consider claiming the VAT back on all petrol or business mileage paid, but beware of the rules to keep more detailed records (see Topical Tips 77).
- Ensure that you declare the right amount of output VAT on company cars where private fuel is provided.

Please consult your Barnes Roffe LLP Contact Partner for assistance with this important matter