

Tax-Free Business Mileage Rates Update

The tax-man takes back the pennies



Company car mileage rates go into reverse

In Topical Tips 84 we advised on the new rates an employee can claim for business mileage when they pay for all the fuel on a company car.

With effect from 1 February 2007 H M Revenue & Customs (HMRC) has reduced the amounts that can be claimed tax-free. The revised rates are as follows (old rates in brackets):

Engine Size	Petrol*	Diesel	LPG
1,400cc or less	9p (11p)	9p (10p)	6p (7p)
1,401 to 2,000cc	11p (13p)	9p (10p)	7p (8p)
Over 2,000cc	16p (18p)	12p (14p)	10p (11p)

*petrol hybrid cars are treated as petrol cars for this purpose.

A short breathing-space

HMRC has acknowledged that there may be some practical difficulties in immediately implementing the new lower rates and that the old rates can be used for a further month i.e. to 28 February 2007.

And back to the future

Concerns have been raised with HMRC regarding the consequent administrative difficulties if the tax-free rates are subject to frequent changes as a result of petrol price fluctuations. HMRC has confirmed that the rates will only be reviewed in the event of a variation of fuel prices of greater than 10%.

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- If you have a specific vehicle that substantially differs from the above, then it is possible to ask your local PAYE office for their agreement to using a different rate for that vehicle.
- You must keep detailed records of amounts claimed (date, mileage, engine size, rates used, reason for the journey) to satisfy any HMRC visit.
- This treatment is extended to employers with dispensations for fuel rates that are linked to the advisory fuel rates. Where a dispensation is in place this will need to be reviewed/adjusted.

Consult your Barnes Roffe LLP contact Partner for guidance in this important area.