

Vehicle Benefit in Kind: Get connected or get taxed

What is Benefit in Kind?

While we are all too aware of our obligations to pay Income Tax, perks of the job, or non-cash payments in Her Majesty's Revenue and Customs (HMRC) terms, are also taxable as a Benefit in Kind (BIK). So, if employees are covered by a private health plan or have a company car then they are liable to pay tax on the 'benefit'. The employer is also liable for duty and while defined as a National Insurance contribution rather than a tax, the bottom line is it costs them money.

However, some employers and employees could avoid having to pay this extra duty by proving their vehicles are exclusively for business use by keeping accurate records. Equally, those liable for BIK tax on the vehicle will may well also need to prove who pays for the fuel for annual tax bills. The most cost-effective way of doing both is employing a telematics system.

Company vehicle or tool of the trade?

Where many fall foul of HMRC is understanding the difference between a vehicle used purely by the organisation for business use and those which may be used by employees for personal trips. Where the vehicles only leave the company premises to carry out official business and are returned at the end of the day, BIK taxation does not apply. However, for car and van fleets, life is rarely so black and white, and the HMRC's definition of 'personal' use makes many employees liable who might consider themselves exempt:

"Private use of a car made available to a director or employee (or to members of his or her family or household) means any use other than for the employee's business travel. An ordinary commuting journey counts as private use. This is so even if the employee is obliged to take the car home because he or she is on call."

Cars and vans are treated differently by HMRC but the liability for BIK can be substantial for both as the following examples demonstrates:

An employee in the base rate Income Tax band (currently 20%) uses a £20,000 petrol car bought in 2008 which emits 172gCO₂/km for private trips. The total car benefit charge for the 2010/2011 financial year is £4600. With a 20% liability, that results in a payable tax bill of £920.

The employer then liable to pay Class 1A National Insurance Contributions, which are currently calculated at 12.8% of total cash value of the benefits. So, the employer pays 12.8% of £4600 leaving them owing HMRC £588.80.

Multiplied over a fleet and the bill could be astronomical but it will be even more severe if the employer has paid for the fuel which the employee is using while clocking up private mileage. If the employee never pays for their own fuel, they will have to pay £828 in additional tax, the employer £530.

Vans are treated differently, and HMRC defines them as: "A goods vehicle with a maximum legal laden weight of 3,500 kilograms." Employees may use a company van to commute without having to report it or pay any duty to HMRC. However, if the private use is significant beyond ordinary commuting, the employee and employer pay contributions based on a flat rate 'reportable value' of £3000. If fuel is provided, there is similarly a flat rate reportable value of £500.

That results in the employee being liable for £600 (£710 if fuel is provided) while the employer will pay £384 and £70 if fuel is provided.

Simple three-step plan

While the onus in law is on the employee to demonstrate there has been no private use, there is clearly good reason for the employer to ensure this happens. Achieving this can be done easily with a three-step plan:

1. Highlight this potential liability to relevant employees
2. Put an appropriate clause in those employees' contracts in respect of private use of their company vehicle
3. Help your employees maintain records that will satisfy HMRC that they are not using their company vehicle for private use

Easy and affordable solution

While a notebook and pen may seem the obvious answer to logging records, those who have experienced such systems know them to be demanding administratively and inaccurate. Telematics on the other hand offers an affordable, efficient and accurate solution, and systems such as TomTom's provide a simple, downloadable format typical of TomTom's user-friendly, no-nonsense style.

For those simply looking to record work-related or personal usage of a vehicle, TomTom's 'Remote LINK Logbook' is ideal. Simply by clicking a button at the start of each journey, employees can register it as a commute, a personal trip or a work-related journey. Individual and group mileage can be monitored by day, week, month or year, and all data can be integrated with payroll and billing systems for smarter, faster calculations and payments. Companies have found the reduction in administration these bring is reason enough to use them on its own.

More than a BIK solution

However, many companies initially subscribing to TomTom for tax reporting purposes now see this as a secondary benefit compared with other advantages such as lower fuel bills, shorter task times and higher customer satisfaction levels.

"Our feedback suggests it's also the same for the drivers," says Thomas Schmidt, managing director of TomTom's Business Solution division, the leading fleet management solutions provider. "They really appreciate how – by subscribing to TomTom - their employer is helping them to satisfy HMRC about their vehicle usage, and so avoid the extra BIK tax and NI charge. But even this seems to be outweighed for them by such day-to-day work benefits as improved safety, reduced stress and enhanced professional pride."

HMRC guidance on BIK concerning cars: <http://www.hmrc.gov.uk/cars/index.htm>

HMRC leaflet on Tax and NIC: <http://www.hmrc.gov.uk/helpsheets/490.htm>

About TomTom Business Solutions

TomTom Business Solutions division is a market leader in the provision of telematics with 125,000 commercial vehicles connected to its WEBFLEET fleet management system. TomTom Business Solutions is about user experience and focuses on the mission critical aspects for your business on the road. TomTom Business Solutions integrates out of the box with dozens of applications across various industries. To find out more about TomTom Business Solutions, visit www.tomtom.com/business or www.tomtomwork.com/en/products/who.xml to see case studies of businesses it has helped.