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Personal tax interactive worksheet

Calculating car and fuel benefits in kind

Based on the provisions of the Finance Act 2016

The calculation of car and fuel benefits is an important skill for a tax professional and as such is always tested in the assessment for Personal tax.

In this module, we'll start by summarising the key points you need to remember when applying the rules for car and fuel benefits. We'll then work through a detailed example, and finally you'll get an opportunity to try a practice calculation yourself.

Please remember that you are provided with tax tables in the assessment. These will give you data to help you put your answer together. Here is an extract from the 2016/17 Tax Table showing the car and fuel benefit data for petrol engines.

Car benefit Percentage	
Emission rating for petrol engines	%
0g/km to 50g/km	7
51g/km to 75g/km	11
76g/km to 94g/km	15
95g/km or more	16+ 1% for every extra 5g/km above 95g/km
Diesel engines – additional 3%	

The figure for Fuel is £22,200

Key points

1. The starting point for calculating a car benefit in kind is the **list price** of the car plus accessories. If the accessories are fitted later, they are only added to the list price if they cost at least £100 each. The percentage of the list price that is taxable depends on the car's CO2 emissions.
2. An employee may make a **capital contribution** towards the cost of the car. Such capital contributions reduce the price of the car used in the benefit in kind calculation in the year the contribution is made and future years. The deduction to the price for capital contributions **is capped at £5,000**.
3. As shown in the Tax Table, the car benefit percentage to apply depends upon the CO2 emissions of the car. For vehicles with CO2 emissions in excess of 95g/km, the percentage increases by 1% for every 5g/km (rounded down to the nearest multiple of 5) by which CO2 emissions exceed 95g/km up to a **maximum of 37%**.
4. **Diesel cars have a supplement of 3%** of the car's list price added to the taxable benefit although the maximum percentage remains at 37%.
5. **The benefit is reduced on a time basis** where a car is first made available or ceases to be made available during the tax year.
6. The benefit is reduced by any payment the employee makes for the private use of the car, this is separate to capital contributions towards the cost of the car.
7. Where fuel is provided for private use there is a further benefit. This is calculated as a percentage of a base figure. As per the table above, for 2016/17 this base figure is £22,200. The percentage to use is the same percentage as is used to calculate the car benefit.
8. There is no fuel benefit where fuel is only provided for business travel or the employee is required to make good the **whole** cost of the fuel used for private use (i.e. a reimbursement of only part of the cost of the private fuel does not reduce the benefit).

Let's work through an example, building the answer step by step.

Worked example

Hayley started working for Azetc Blinds Ltd on 1 July 2016. She was given a company car which cost £22,500 (with a list price of £25,000 and she made a capital contribution towards the purchase of £6,000).

The car is diesel and has CO2 emissions of 149g/km.

Hayley's private fuel was only paid for by the company from 1 October 2016.

Calculate Hayley's car and fuel benefits in kind for the 2016/17 tax year.

Let's see how to answer this question in simple steps.

Step 1 – What is the price of the car for the car benefit calculation?

Hint: Remember to ignore the price actually paid for the car. This is irrelevant in the calculation of car benefits.

The starting point is the list price of £25,000.

Hayley contributed £6,000 to the purchase but capital contributions are capped at £5,000.

So the price for the car benefit calculation is:

$$\text{List price} - \text{Capital contribution (capped at £5,000)} = £25,000 - £5,000 = \mathbf{£20,000}$$

Step 2 – What is the car benefit percentage?

Firstly, what are the CO2 emissions of the car? 149g/km.

Take a look at the car benefit percentages in the Tax Table. You can see that the car fits into the above 95g/km category. So we need to round down the actual percentage to the nearest multiple of 5 i.e. 145g/km. The percentage can then be calculated as:

$$(\text{CO2 emissions} - 95) \times 1\% + 16\% = (145 - 95)/5 \times 1\% + 16\% = 26\%$$

Hint: Always double check the fuel type of the car given in the question. In this question we have a diesel car so we need to add the 3% supplement to the car benefit percentage.

$$\text{Car benefit percentage} = 26\% + 3\% = \mathbf{29\%}$$

Step 3 – Calculate the car benefit in kind

This is calculated as Car benefit price x Car benefit percentage

Hint: Again check the question to make sure benefit was available for the whole tax year. In this question, Hayley did not join the company until 1 July 2016 so the car was only available in 2016/17 for nine months of the year.

$$\mathbf{\text{Car benefit} = £20,000 \times 29\% \times 9/12 = £4,350}$$

Step 4 – Calculate the fuel benefit

The fuel benefit base figure is provided in the Tax Table. For 2016/17 it is £22,200.

Remember, the fuel benefit is reduced where private fuel is not available for the whole tax year. In this question, private fuel was only available for 6 months of 2016/17 from 1 October 2016.

So fuel benefit is calculated as:

$$\begin{aligned} & \text{£22,200} \times \text{car benefit percentage} \times \text{portion of year} \\ & = \text{£22,200} \times 29\% \times 6/12 = \text{£3,219} \end{aligned}$$

This worked example should have given you a demonstration of how to build your answer step by step. You can now have a go at putting together an answer yourself in your own time for the example below.

Practice question

Steffan is a sales manager and had private use of a company car for the whole of 2016/17. The car is petrol and has a list price of £32,500 and has fitted optional accessories of £2,500. The CO2 emissions of the car are 113g/km.

Steffan pays £125 per month towards the private use of the car but does not contribute towards the cost of the fuel for private use.

Calculate Steffan's car and fuel benefits in kind for the 2016/17 tax year.

We've set out the calculation in steps to help you.



When you've attempted each step, you can check your calculation by clicking on the button to reveal the solution before moving onto the next step.

Step 1 – What is the price of the car for the car benefit calculation?

Click to display/hide the solution.

Solution

The price of car for car benefit is:

$$\text{List Price} + \text{Cost of optional accessories} = \text{£32,500} + \text{£2,500} = \text{£35,000}$$

Step 2 – What is the car benefit percentage?

Click to display/hide the solution.

Solution

The CO2 emissions of the car are 113g/km.

The car fits into the above 95g/km category.

The car is petrol driven.

$(110 - 95)/5 \times 1\% + 16\% = 19\%$. NB. The CO2 emissions are rounded down to the nearest whole 5.

Step 3 – Calculate the car benefit in kind

Hint: The benefit is reduced by any payment the user must make for the private use of the car.

Click to display/hide the solution.

Solution

Price for car benefit x Car benefit percentage = $\text{£}35,000 \times 19\% = \text{£}6,650$

The car is available for the whole of the 2016/17 tax year.

Deducting the monthly payment towards the private use, the car benefit is:

$$\text{£}6,650 - (\text{£}125 \times 12) = \text{£}5,150$$

Step 4 – Calculate the fuel benefit

Click to display/hide the solution.

Solution

There is no contribution towards private fuel.

As per the Tax Table, the fuel benefit base figure is $\text{£}22,200$.

Fuel benefit = Fuel base figure x car benefit percentage = $\text{£}22,200 \times 19\% = \text{£}4,218$