



## ET4B technical update: Car or van – can you spot the difference?

As most readers will know, the tax treatment of company cars is significantly different from company vans. From an income tax perspective, company cars are subject to relatively high charges based on the list price (rather than actual value) and CO<sup>2</sup> rating of the vehicle. Similarly company car fuel remains an 'all or nothing' benefit, which is becoming more punitive (i.e. tax-ineffective) with each passing year.

Vans or 'commercial vehicles' on the other hand have, generally more lenient, fixed rate taxable benefits applied. These can even be reduced to NIL if the only private use is incidental or incurred on 'ordinary commuting'. In addition the employer may be able to secure a VAT input tax deduction on the purchase in appropriate cases, significantly reducing the overall net vehicle cost. Whilst this beneficial treatment may encourage both employee and employer toward the 'van' rather than the 'car' route, in truth it is becoming more difficult to tell the difference between the two types of vehicles.

In our experience the vehicles for which difficulty arises tend to fall within three separate categories, and the following represents a brief summary of each:

- Vans with rear seats or windows: this category might be described as a vehicle having a typical small or medium 'transit' van shape, but which has had rear seats and/or windows added and which make it appear quite similar to an estate car. In this category, the size of the 'cargo' area, and the 'payload' of the vehicle may be the most important tests in deciding whether it is a car or van. NB: It may also be noted that HMRC does publish an online list of some of these vehicles, clarifying whether they are regarded as a car or a van. However there are many subtle differences in make, model, trim level, and optional extras (some of which can significantly affect the overall treatment of the vehicle). Therefore care must be exercised if taking this list at face value.
- Double cab pick-ups: this category of vehicle will normally have a separate cargo area, i.e. behind a closed passenger compartment, which is uncovered, or separately covered by a removable 'hard top'. In this case the most relevant tests are whether the vehicle has 4 or merely 2 doors to access the passenger area, as well as the 'payload' of the vehicle (whether this is at least 1 metric tonne).
- Other vehicles, including 'vans derived from cars': Certain vehicles within this category will be readily accepted by HMRC as being completely 'unsuitable' for private use (e.g. buses containing at least 9 seats, or HGVs) and in these cases no taxable benefit applies. In other cases, certain manufacturers appear to have attempted to convert what would otherwise be a car model into a van, using some fairly superficial alterations. In this scenario HMRC would probably require some convincing evidence that the *primary* purpose of the vehicle is now to convey goods rather than passengers. For instance, simply removing rear seats on a temporary rather than permanent basis, is unlikely to suffice.

The difficulty employers face in establishing the differences between cars or vans is exacerbated by the fact that (a) information from the manufacturer may be difficult to get hold of or (b) published technical detail e.g. on 'payload' etc may even have been calculated using EU or international methods (as opposed to the UK method which HMRC favours). There is also the concern that the legacy Customs and Revenue agencies within HMRC cannot quite agree on the distinctions! That said, they do in fact apply fairly similar tests, therefore with a little common sense and effective guidance to staff, employers can potentially reduce or control costs all round.

ET4B has recently developed additional guidance methodology, which is designed to significantly assist employers in this complex area. In cases where the vehicle has properly been designated a 'van', this methodology can be complemented with helpful policy etc documentation which can be used to demonstrate that no van benefit arises (i.e. in appropriate cases where the only private use is incidental or ordinary commuting mileage).



# Employment Tax for Business

If you would like our further assistance in these complex matters, please contact us.

**Brian Ackerley:** 07712 527355

**Email:** [brianackerley@et4b.co.uk](mailto:brianackerley@et4b.co.uk)

**Dave Cooper:** 07833 218569

**Email:** [davecooper@et4b.co.uk](mailto:davecooper@et4b.co.uk)

**Website:** [www.et4b.co.uk](http://www.et4b.co.uk)

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