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Tax Benefits of Providing Electric & Hybrid Company Cars

The tax treatment of electric and hybrid company cars remains highly attractive for both employers and employees. With low Benefit-in-Kind (BIK) rates and generous corporation tax reliefs, electric vehicles (“EVs”) can provide a very tax-efficient remuneration package.

1. Benefits for the Company

Corporation Tax Relief

Purchased electric cars

- New fully electric cars currently qualify for **100% first year allowances**.
- This means the company can generally deduct the full cost of the vehicle against taxable profits in the year of purchase.

Hybrid and higher emission vehicles

- Hybrid vehicles generally do **not** qualify for 100% relief.
- Relief is normally given through writing down allowances at either:
 - 18% per annum; or
 - 6% per annum for higher emission vehicles.

Lease Rental Relief

- Lease payments for electric cars are generally fully deductible for corporation tax purposes.
- For higher emission vehicles, a proportion of the lease rental deduction may be restricted.

VAT Recovery

- VAT recovery depends on how the vehicle is used.
- In broad terms:
 - VAT on a purchased car is usually blocked unless there is no private use.
 - 50% of the VAT on leased cars may normally be reclaimed where there is private use.
 - VAT on maintenance and running costs is generally recoverable subject to normal rules.

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Reduced Employer National Insurance

- Employers pay Class 1A National Insurance on the taxable benefit provided to employees.
- Because electric vehicles attract very low BIK percentages, the employer NIC cost is significantly reduced compared with petrol or diesel company cars.

Salary Sacrifice Opportunities

Electric vehicles work particularly well within salary sacrifice arrangements because of their low BIK percentages.

Potential advantages include:

- Employer NIC savings
- Employee tax and NIC savings
- Attractive staff benefit packages
- Support for ESG and environmental objectives

2. Benefits for Employees

Very Low Benefit-in-Kind (BIK) Charges

The taxable benefit on electric vehicles remains substantially lower than for petrol or diesel vehicles.

Current indicative BIK rates@

Vehicle Type	Typical BIK Rate (2025/26)
Fully electric vehicles	3%
Plug-in hybrids	3%–15% depending on emissions and electric range
Petrol/Diesel vehicles	Up to 37%

This can produce substantial income tax savings.

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Example

An employee provided with:

- a £50,000 fully electric company car; and
- taxed at 40%

would typically suffer an annual tax charge of approximately:

$£50,000 \times 3\% \times 40\% = £600$ per annum

An equivalent petrol vehicle could easily create a tax charge many times higher.

3. Other Advantages

Running Costs

Electric vehicles can offer:

- Lower fuel costs
- Reduced servicing and maintenance costs
- Exemption from many congestion and clean air charges

Workplace Charging

- Employer-provided workplace charging for electric vehicles is generally tax-free for employees.
- The installation of workplace charging points may also qualify for capital allowances.

Home Charging Equipment

- In some cases, companies may also obtain tax relief on the provision of home charging equipment for employees.
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4. Points to Consider

Before implementing an EV or hybrid company car policy, businesses should consider:

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- Employee mileage patterns
- Availability of charging infrastructure
- Insurance arrangements
- Salary sacrifice documentation
- Impact on pension and other salary-related benefits
- Future changes to BIK rates

Summary

For many businesses, electric company cars currently represent one of the most tax-efficient employee benefits available.

Key advantages include:

- Low employee tax charges
- Corporation tax relief for the company
- Reduced employer NIC costs
- Potential salary sacrifice savings
- Environmental and sustainability benefits

Businesses considering introducing electric or hybrid company vehicles should seek tailored advice to ensure the most efficient structure is used.

This bulletin is intended for general guidance only and should not be relied upon as specific tax advice. Tax legislation and HMRC practice may change.

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