

Should You Purchase a Car Via Your Company?

Tax Saving

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Should I buy a car through my company? This is a common question that we get and the answer (rather frustratingly, we imagine) is: it depends. If you're thinking of paying for a company car via your company, when it comes to tax, the greener, the better! This is due to emissions playing a key role in determining both the ongoing taxes and the initial tax relief for the car which we can outline in the rest of this article.

However, there's lots else to consider when it comes to company cars, such as buying outright vs hire purchase and lease (or even owning personally and [claiming mileage](#)) and the associated taxes, from VAT and corporation tax through to personal tax implications. Therefore, buckle in and we'll try to explain all the points to consider in the rest of this article:

Capital Allowances:

Let's start off with a big perk of buying a car via your limited company: this purchase is likely to be eligible for "capital allowances", which essentially means getting tax relief on the cost of the car by reducing an element of the car's price from the company's taxable profits.

One of the biggest motivations for company owners buying new fully electric cars is that The Capital Allowances Act has extended the 100% first year allowances for electric cars until 31st March 2026. That means your company gets full corporation tax relief in year one. For example, a company within the main rate of Corporation Tax (25%) would save £6,250 in Corporation Tax on an electric vehicle worth £25,000 (i.e. £25,000 x 25%).

Without this first year allowance, cars will either get a 18% or 6% writing down allowance per year, which means you effectively don't get the corporation tax relief in the first year of purchase and it's instead spread out over multiple years. The allowance is determined by [HMRC's capital allowance rates](#), as outlined below:

- **Electric vehicles / vehicles with CO2 emissions of 0 g/km (new and unused):** 100% first year allowance
- **Second hand electric vehicles:** 18% main rate allowance
- **Vehicles with CO2 emissions of 50 g/km or less (new or second hand):** 18% main rate allowance
- **Vehicles with CO2 emissions of over 50 g/km (new or second hand):** 6% special rate allowance

To note, once a company car is registered within the system, Mighty can take care of the capital allowance claims for you.

Benefit in Kind (BIK) Tax:

For company cars that are provided to employees, it is assumed that they will be available for personal use (whilst there are some exceptions such as 'pool cars', in practice these wouldn't be relevant for freelancers). Due to this, there is a "Benefit in Kind" (BIK) tax that has to be paid, and this tax is dependent on the P11D value (more on this below) and a percentage (the latter of which is determined by the CO2 emissions, which is good news for those looking to buy electric cars!).

P11D Value:

If your company provides you with a car, it needs to report this to HMRC using a P11D form (or through payroll from 2027 onwards). This form which informs HMRC of the benefits and their associated value (and as such, the tax payable). The P11D value for cars is made up of their list price, any optional extras, delivery fees and any VAT on top. Of course, at Mighty, we can support you with this form.

The Percentage:

HMRC have a published list of CO2 emissions bandings and their associated percentages when it comes to calculating car benefits, which is [linked here](#). As you'll see, electric cars have a percentage of 3%, whereas cars with CO2 emissions above 170 g/km have a percentage of 37%, so the tax payable is hugely influenced by these emissions.

Calculating the Tax:

Then, the tax is firstly calculated by multiplying the P11D value by the associated percentage. For simplicity, let's assume you purchase a fully electric vehicle with a list price of £25,000. It falls into the 3% category, so the benefit-in-kind value is £500. There are two taxes to pay here:

1) The company pays tax via the P11D at a rate of 15%, so in this example, £75 for the year (£500 @ 13.8%).

2) Then you will pay tax personally, depending on what income tax band you fall into. So for example, if you were a basic rate tax payer, you would pay £100 tax (i.e. 20%), but if you were a higher rate tax payer, you would pay £200 (i.e. 40%).

Other Considerations:

Leasing:

A popular alternative to buying a car outright is leasing, which can be especially attractive if you can foresee changing your vehicle once again in the near future. When it comes to leasing, capital allowances aren't applicable as the company won't technically own the vehicle but the monthly lease payments will be a tax deductible expense. However, the benefit in kind taxes will still be applicable.

VAT:

The VAT on the car purchase would only be recoverable if you could prove that the vehicle is only used for business purposes, but as mentioned above, this is nearly impossible to prove for freelancer and contractor companies without business premises. If you are leasing the car and it's used personally as well as for business purposes, you can reclaim 50% of the VAT incurred.

Fuel:

In addition to the above, when the company also pays for fuel, there would be an additional benefit-in-kind charge which is commonly referred to as the fuel benefit charge.

The taxable benefit is calculated by taking the car fuel benefit (which is a fixed figure that HMRC sets every tax year) and multiplying this by the car's BIK percentage (which is set based on the CO2 emissions. So, for 2024-25, the fuel benefit charge multiplier is set at £27,800. If you had a car with 99 g/km, which has a percentage of 24%, this would be the taxable benefit would be £6,672. This would be subject to tax within your P11D and personal tax return in the same manner as the company car.

If you are VAT registered, the VAT costs on the fuel can be reclaimed but with a big caveat: as the car will likely have some private use too, then an adjustment will have to be made on the company's VAT return for the private element of the fuel and [a VAT fuel scale charge](#) will need to be paid.

Alternatively, you could simply claim mileage under the Approved Mileage Allowance Payments (AAMP) that's set by HMRC. This is discussed in more detail in our blog [here](#).

Other Costs:

Of course, the cost of the car and fuel isn't the only associated costs you can incur. There's also insurance, maintenance, road tax etc. These can be claimed via the business too.

FAQs:

What about Hire Purchase?

Whilst a Hire Purchase allows you to spread the costs over many months, you will still be able to claim capital allowances akin to if you had purchased the vehicle outright. The interest payments that are commonly associated with hire purchases will be tax deductible (the same would be true on the interest payments if the company had taken a loan to buy the car outright). Effectively, the monthly payments will be split into two: one part that is paying off the car itself, and one part that is interest. A bookkeeping rule can be set up in Mighty to save you with the admin of this!

What if the car is *only* used for business use?

For freelancers, this is near impossible to prove in practice, as even if your car is parked at your personal house, this disqualifies you from claiming that it's only used for business purposes.

Can the company pay for an electric charger to be installed at my personal home?

Good news: if your company pays to install a charging point at your home, there's no extra tax to pay and the electricity used is tax-free too.

Are there any considerations for second-hand vehicles?

The main consideration is being aware that the benefit in kind value is calculated on the *original list price* of the vehicle when it was new, not the price you pay to purchase it. This means that even if you buy a second-hand car at a much lower price, the BIK tax will be calculated as if it were still worth its original new value. As a result, second-hand cars can be less tax-efficient compared to new cars, especially much older vehicles where there's a big disparity between the purchase and original list price.

This can lead to a significant variance in BIK tax, as the difference between the original list price and the second-hand purchase price can be substantial. In contrast, new cars, especially electric ones, not only benefit from lower emissions percentages but also from the fact that their BIK tax is based on the current purchase price.

The only big consideration is the capital allowances. For electric vehicles, you will benefit from 100% capital allowances (e.g. corporation tax relief) providing the car is new. For second-hand electric vehicles, you would claim 18% of the purchase price as a capital allowance annually.

What about vans?

When it comes to vans, the rules are different compared to cars. Vans used primarily for business purposes can be a more tax-efficient option because they attract lower Benefit in Kind (BIK) tax rates. If the van is used solely for business, with minimal private use (such as commuting to work), the BIK value can be as low as £0. However, if there is any significant personal use, a flat-rate BIK charge applies, which is generally lower than for cars.

Additionally, vans are often eligible for 100% first-year capital allowances, meaning you can claim the full cost against your company's profits in the year of purchase, provided it's used exclusively for business purposes.

What about using a personal car for business use?

If you are using a personal vehicle for business trips, you'll instead be able to claim mileage. This is discussed in more detail in our blog [here](#).

We know this is a lot to take in, so if you've got a specific car or setup in mind, drop us a line at support@mightyaccounting.com and we'll help you figure out the best approach.

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