



Business cars and Corporation Tax – Dec 2008 update

HM Treasury has published a technical note which provides a greater level of detail on how the new capital allowance regime being introduced for all business cars from 1 April 2009 will work.

Acquisition of business cars

What is happening?

The expenditure on all business cars will be treated in three ways, depending on the CO2 emissions of each vehicle. Diesel and petrol engine vehicles will be treated the same way.

- Companies purchasing cars with emissions of 110g/km or below will be able to write down the full cost of these vehicles against their taxable profits in the first year of ownership
- Companies purchasing cars with emissions between 111g/km and 160g/km must allocate the expenditure to the general plant and machinery pool – where they will be able to write down 20 % of the cost of these vehicles against their taxable profits each year, on a reducing balance basis
- Companies purchasing cars with emissions of 161g/km and above must allocate the expenditure to a 'special rate' plant and machinery pool - where they will be able to write down only 10 % of the cost of these vehicles against their taxable profits each year, on a reducing balance basis

When do the new rules apply?

The new rules will affect any 'expenditure incurred' on or after 1 April 2009.

What does expenditure mean?

Expenditure is incurred as soon as there is an 'unconditional obligation' to pay for an asset, providing the expenditure is due to be paid within four months. For example, if a contract to purchase cars is entered into on 31 March 2009 and requires payment to be made on 31 July 2009, the payment obligation is treated as arising on 31 March 2009. These rules cater for situations where expenditure is incurred even though the cars are not delivered for some time after the new regime has started.

What if the car is delivered after 1 August 2009?

If the contract becomes unconditional **after** 8 December 2008 and the car is made available on or after 1 August 2009, the new rules will apply even if the expenditure is incurred before 1 April 2009.

If the contract becomes unconditional **before** 8 December 2008 for a car being made available on or after 1 August 2009, the current rules will apply.

What happens to cars treated under the current regime?

The existing 'expensive cars' regime for vehicles costing over £12,000 (with an annual writing down cap of £3,000 and a balancing adjustment on disposal) will remain in place for five years. Any balance of unrelieved expenditure left after the five years will be added to the general pool of unrelieved expenditure. This transitional period will finish at the close of the businesses' first chargeable period to end on or after 31 March 2014.

Leasing of business cars

What is happening?

Cars being leased on or after 1 April 2009 will be treated in one of two ways:

- Cars with CO2 emissions of 160g/km or less will face no lease rental restriction, meaning that the cost of the lease is fully deductible against taxable corporate profits.
- Companies leasing cars with CO2 emissions of 161g/km or more will face a 15% lease rental restriction, meaning that they can only deduct 85% of any rental payments against their taxable profits. If there is a chain of leases, this disallowance will apply only to rental payments made by one lessee in a chain of leases.

What about leases that commence before 1 April 2009?

All lease rental payments for cars costing more than £12,000 will be subject to the existing rules until termination of the lease.

What if the lease starts before 1 April 2009 but the car is delivered afterwards?

The new rules will apply. The lease will be regarded as commencing from the date when the lessee is entitled to use the car under the lease.

Short term hire (Daily Rental Cars)

As previously announced, daily rental cars will be brought into the new regime. The rules on acquisition outlined above will therefore apply.

A daily rental company using leasing to fund cars emitting more than 160g/km will from 1 April 2009 be deemed as the last business in a chain of leases. It will incur a 15% lease rental restriction, **regardless** of whom the cars are actually hired to.

Anti Avoidance Measures

The government has outlined its plans to take the following anti-avoidance measures:

- To prevent a business from re-leasing existing cars in order to bring the lease into the new rules
- To prevent artificial winding up of business to generate a balancing adjustment on the cessation of the main and or plant and machinery pools

*Please note that the consultation period for the technical note closes on **27 February 2009** and some aspects of the proposals may be subject to variation. To obtain a full copy of the technical note please click the link below:*

http://www.hm-treasury.gov.uk/d/modernising_taxrelief_technote081208.pdf