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## EV Company Car Tax Planning for Directors

### Why Electric Vehicles Remain Powerful, But Only When Modelled Properly

Electric company cars continue to benefit from one of the most favourable tax treatments available to directors. Low benefit-in-kind percentages, combined with generous capital allowances, mean that in many cases an EV provided through a company can be significantly more efficient than personal ownership.

However, the headline BIK percentage is only the starting point. The true efficiency of an EV company car depends on modelling the interaction between:

- Personal income tax on the benefit-in-kind
- Employer Class 1A National Insurance
- Corporation tax relief on acquisition
- Dividend extraction alternatives
- Ownership horizon and disposal
- Interaction with income thresholds

The correct answer is rarely found by looking at the BIK rate alone.

### 1. How the Benefit-in-Kind Is Calculated

The taxable benefit of a company car is calculated as:

P11D value × applicable BIK percentage

For fully electric vehicles in 2026/27, we assume a BIK rate of 3% for modelling purposes.

**Assume:**

EV P11D value: £65,000

BIK rate: 3%

Taxable benefit:

$£65,000 \times 3\% = £1,950$  per year

For a higher-rate taxpayer (40%):

$£1,950 \times 40\% = £780$  personal income tax per year

Employer Class 1A NIC at 13.8%:

$£1,950 \times 13.8\% = £269$  per year

Total annual tax cost:

$£780$  personal tax +  $£269$  employer NIC =  $£1,049$  per year

For a £65,000 vehicle, the annual tax exposure is modest relative to the asset value. This is the core reason EV company cars remain attractive.

## 2. Corporation Tax Relief on Purchase

Where a company purchases a new fully electric vehicle that qualifies for 100% First Year Allowances:

Purchase price: £65,000

Corporation tax relief at 25%:

$£65,000 \times 25\% = £16,250$  reduction in corporation tax (year of acquisition)

This relief is immediate. It reduces the company's tax liability in year one and improves cash flow at the corporate level.

However, this timing benefit must be viewed alongside future disposal implications.

## 3. Five-Year Lifecycle Modelling: Company Purchase

To assess the true position, we model a five-year holding period.

### Assumptions:

- EV cost: £65,000
- 100% First Year Allowance
- Corporation tax: 25%
- Higher-rate director
- BIK rate: 3%
- Residual value after five years: £25,000

### Year 1

Corporation tax saving: £16,250

### Annual BIK Cost

Taxable benefit: £1,950

Personal tax: £780 per year

Employer NIC: £269 per year

Total annual BIK-related tax: £1,049

Over five years:

$£1,049 \times 5 = £5,245$

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### Disposal After Five Years

If the vehicle is sold for £25,000:

Because full capital allowance was claimed upfront, the £25,000 disposal proceeds create a balancing charge.

Corporation tax on disposal:

$$£25,000 \times 25\% = £6,250$$

### Net Tax Position Over Five Years

Corporation tax relief: £16,250

Less BIK + NIC: £5,245

Less balancing charge tax: £6,250

Net tax advantage:

$$£16,250 - £5,245 - £6,250 = £4,755$$

Even after disposal is factored in, the company purchase structure remains tax efficient.

## 4. Alternative: Personal Purchase Funded by Dividend

Now compare the same £65,000 vehicle purchased personally.

To net £65,000 after dividend tax at 35.75%:

Required gross dividend:

$$£65,000 \div (1 - 0.3575) \approx £101,169$$

Dividend tax payable: £36,169

To fund that dividend, the company must generate:

$$£101,169 \div (1 - 0.25) \approx £134,892 \text{ profit before tax}$$

Corporation tax at 25%: £33,723

Total combined tax suffered:

$$£33,723 \text{ corporation tax} + £36,169 \text{ dividend tax} = £69,892$$

Net cash received: £65,000

Effective combined tax rate: approximately 52%

There is no BIK exposure in this scenario, but the upfront tax leakage is substantially higher.

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## 5. Threshold Interaction: The £100,000 Consideration

Although EV BIK percentages are low, they are not neutral in threshold-sensitive cases.

**Assume:**

Salary: £98,500

EV BIK: £1,950

Total income becomes £100,450.

Income above £100,000: £450

**Allowance reduction:**

$£450 \div 2 = £225$

**Additional income tax on lost allowance:**

$£225 \times 40\% = £90$

The marginal rate on that final £450 of income is significantly higher than 40%.

For directors close to £100,000, even modest BIK amounts can trigger taper effects. This does not negate the efficiency of the EV structure, but it must be modelled.

## 6. Lease vs Purchase

Where the vehicle is leased:

- Lease payments are deductible for corporation tax.
- 50% of VAT on lease payments is typically recoverable where private use exists.
- There is no large upfront capital allowance claim.

Leasing spreads tax relief over time rather than concentrating it in year one.

The optimal structure depends on:

- Profit levels
- Cash flow
- Planned ownership horizon
- Capital expenditure strategy

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## 7. When an EV Company Car May Not Be Optimal

Despite the advantages, EV company cars are not universally correct.

They may be less optimal where:

- Corporate profits are insufficient to utilise full First Year Allowance.
- The director is already deep within taper territory.
- The holding period is very short.
- Corporate liquidity is required for expansion.

The decision must be assessed over at least a three-to-five-year horizon.

## 8. Key Takeaways

Electric company cars remain one of the most tax-efficient director benefits available. The advantage arises from the combination of low BIK percentages and corporation tax relief.

However, the correct structure depends on modelling both corporate and personal tax interaction across the full lifecycle of the vehicle.

The difference between assumption and modelling can amount to tens of thousands of pounds over five years.

## 9. Talk to Us

If you are considering acquiring an electric vehicle through your company, we can model:

- Company purchase versus lease
- Personal purchase comparison
- Threshold interaction
- Five-year lifecycle tax impact

A structured review before committing to acquisition can materially improve long-term outcomes.

You can:

- **Email:** [info@drs-tax.com](mailto:info@drs-tax.com)
- **Telephone:** 020 8059 1891
- **Submit an enquiry** via our [Contact Us](#) page
- **Book a free 15-minute consultation**