Car fuel benefit charge for hybrid cars and the ‘making good’ rule

Employment Tax

01 June 2020

We look at the issue of what it means to make good the whole cost of fuel to escape a fuel benefit charge where the company car is a hybrid.

The CIOT's Employment Taxes Committee met (virtually) at the end of March and one discussion point was the full recovery of private fuel costs from an employee where a hybrid company car is provided. A car fuel charge arises where, in addition to being provided with a company car, an employee is provided with car fuel for private use. There is no reduction in the car fuel scale charge for a contribution to the cost of fuel for private journeys and to escape the fuel benefit charge an employee must reimburse the whole cost of private fuel to the employer (or pay for it in the first place). The reimbursement must be made by 6 July following the end of the tax year and the employee has to keep detailed records of business and private mileage to confirm that the amount reimbursed for private mileage is correct. While HMRC publishes Advisory Fuel Rates (AFRs) which an employer can use to recoup the cost of private mileage where the employer paid for the fuel, there are no separate rates for hybrid cars, and these are treated as pure petrol or diesel cars for AFR purposes.

The question that arises with a hybrid car is: how do the employer and employee determine whether the full cost of private mileage has been met by the employee when a car utilises both electric power (which is deemed not to be a fuel for car fuel benefit purposes) and petrol or diesel power?

For example, an employee is provided with an electric/petrol hybrid car and drives 20,000 miles in a tax year, of which 15,000 miles are business and 5,000 miles are private. The employer provides a fuel card for the purchase of petrol and has an electric charging station at the employer's workplace for the supply of electricity. Assume fuel costs are 14p per mile for the petrol and 4p per mile for the electricity,

and that the employee drives 12,000 miles using petrol and 8,000 miles using electricity, albeit there is probably no real life way of ascertaining this!

How much should the employer recoup from the employee?

If all the private mileage was driven using petrol, the employer should have recovered £700 (5,000 miles x 14p per mile). However, if all the private mileage was driven using electricity, then the employer is not required to recover anything to avoid the fuel scale charge.

HMRC's guidance does not address what is accepted to be making good in full where the car is a hybrid car. It seems likely, however, that if the employer recovers from the employee the cost of petrol related to private journeys and bases this on the total petrol costs incurred ignoring the electricity provided, this probably makes good the whole cost of private fuel to the employer for fuel benefit charge purposes. Therefore, in the above example the employee would be charged £420 (12,000 miles x 14p per mile x 5,000/20,000).

(In reality, the charge is likely to be an appropriate proportion of the total petrol costs met by the employer.) We would, of course, be interested in members' approach to this issue in practice, especially if you have agreed a method with HMRC.

A more detailed article which takes a wider look at electric car taxation for employees and businesses can be found on the ATT website.