Business Mileage

Employment Tax | Tax voice



07 March 2017

Peter Moroz explores the issue of mileage allowances and electric cars

It seemed like a simple question from a client.

“How much can I pay an employee for his business mileage without causing a tax problem?”

I had advised the client on their car policy and the impact of the new salary sacrifice rules so in comparison this should be easy!
We were dealing with a company car driver so clearly we could not use the AMAPs rate of 45p per mile for the first 10,000 miles. So, was this just a question of looking at the latest HMRC Advisory Fuel Rates (AFR)? That sounds simple enough.

Hang on though; they were asking about an electric car! It is not a hybrid so we cannot use the AFR figures. There followed a little bit more detailed research into the HMRC manuals on the gov.uk site. From that it is easy to discern firstly that, despite what the laws of physics dictate and what my electricity provider believes, in the view of the tax statutes electricity is not a fuel.

The upshot of electricity not being regarded as a fuel is that there is no fuel scale charge for a company electric car where the electricity is provided by the employer.

There is quite a lot of information in the manuals on what happens if the employer chooses to install a charging station at the home of the company car driver. However, all my client wanted to know was what mileage rate should they pay the driver for business mileage? They had no interest in installing a charging station or indeed for paying the electricity bill of the driver direct. There was no help in the manuals on the simple question of mileage rate other than to say you could not use the AFR figures although there is detail on how an employer can pay for a charge card of £100 per year to allow the driver unlimited access to local authority charging points.

It seemed a simple enough request though: “What’s the rate per mile?”

The only option available is, it would appear, to base a mileage rate on actual expenses. This of course seems ridiculous when we have mileage rates available for every other category of driver.

The question had now shifted from one being a simple tax question to one of analysing exactly what the cost of energy was and indeed an analysis of the transfer of electricity from grid to battery. It is hard to get details on the exact energy efficiency of electric vehicles but most independent data hints that a figure of about 80% is reasonable, i.e. it takes 100 kWhours of electricity from the electricity meter to put 80 kWhours of energy into the car battery with the difference being lost as heat in the battery/connections used.

Further research shows that a Tesla Model S has an 85kWHour capacity battery with a quoted range of 265 miles. So, I would need about 106.25 kWhours to charge it.

My electricity cost is 14.22p per kWhour excl. VAT at the reduced 5% rate and excluding any standing charge. This means that a full charge costs 106.25 x 14.22 x 1.05 = £15.86.

Based on the quoted range of 265 miles (which might be a bit generous) this then equates to approx. 6 pence per mile.

I do not mind a bit of mathematics but, for those who do not, it would be great if something could be found on the HMRC website to endorse these calculations.