



Fact Sheet

Capital Allowance Reform

From 1st April 2009

With effect from April 2009 the capital allowance treatment of all cars will be reformed to favour those with low CO2 emissions; and is the most profound change in fleet taxation since the Government linked Benefit-in-Kind tax to CO2 emissions in 2001.

The Basics.....

- *Cars with CO2 emissions of more than 160g/km will be written down at 10% on a reducing balance basis.*
- *Cars of less than or equal to 160g/km will be written down at 20% on a reducing balance basis.*
- *The £3000 per annum maximum writing down allowance has been removed and as before there will be a first-year allowance of 100% for cars with CO2 emissions of 100g/km or less.*
- *New rules for lease rental restriction mean leased cars with CO2 emissions of less than or equal to 160g/km will have no element of their leasing cost disallowed for corporation tax purposes.*
- *Cars with CO2 emissions of more than 160g/km will have a flat 15% of the finance rental element of their leasing costs disallowed.*
- *The percentage of financial rental costs that are disallowed will be capped at 15%.*

Cars sub 160g/km CO2 pool

Unlike the current system for writing-down the value of company vehicles, cars delivered after 1st April 2009 will remain in their CO2 pool after they are disposed-of. For a typical car in the sub-160g/km CO2 pool, around 20% of its original cost will remain in the pool after disposal proceeds are removed, and it will take around 11 years to claim 90% of this balance – or “tail” – against tax.

Cars over 160g/km CO2 pool

For cars in the over-160g/km CO2 pool, which tend to realise proportionally less money on disposal, the tail will be larger and therefore take longer to claim against tax – typically more than 20 years to claim 90% of the balance. The difference in the level of writing-down allowance and the length of the respective tax relief tails will create an increase in car ownership costs at the 160g/km CO2 threshold.

At the same time, the Treasury will also change the system of leasing disallowances, which will allow businesses generally to deduct more of their car leasing costs from taxable profits. The current Expensive Car Leasing Disallowance will be abolished and replaced by a Lease Rental Restriction, which will allow businesses to set the full cost of contract hire rentals against tax in respect of cars under 160g/km CO2, irrespective of the car's price. At present, only rentals on cars costing less than £12,000 are fully deductible.

For cars above 160g/km CO2, rentals will be deductible except for a flat portion of 15% of the rental, which will be disallowed and therefore remain taxed. Compared with the current sliding scale of leasing disallowances for cars over £12,000, the new system will make it cheaper than at present to lease any car costing more than £17,430 regardless of its CO2 rating.

How will the corporation tax changes affect my fleet?

In general, cars become more attractive to lease than to buy under the new rules, due to the cost benefits offered by the new Lease Rental Restriction. In particular, cars that cost more than £12,000 and emit less than 160g/km of CO2 will be cheaper to acquire on Contract Hire from next April than they are at present.

However, there is no “one size fits all” response to this tax reform. Every car policy will need to take account of the interactions between prices, depreciation, CO2 emissions, fuel costs, VED, corporation taxes, National Insurance, your business's cost of funds and other important factors.

For more information, please contact your Account Executive.