

Using Your Own Vehicle for Work



Amicus guide
for members

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■ 1. INTRODUCTION

This guide is for employees who use their own car, van or motorcycle when they travel on business from 6 April 2002.

For details of the rules before 6 April 2002 please phone your nearest Inland Revenue office.

This guide tells you:

- Which journeys qualify as business travel.
- How using your own vehicle for business travel can affect the amount of tax and National Insurance contributions (NICs) you pay.
- About taxable profit and tax relief.
- About keeping records of allowances and business mileage.
- The information your employer will give you.
- What information you should give the Inland Revenue.

It also provides you with detailed examples and a work sheet to help you to calculate your own tax position.

If there is something we have not covered, or you are in doubt about anything in this guide, please contact any Inland Revenue Enquiry Centre or Tax office. Details are in your phone book under 'Inland Revenue'.

■ 2. USING YOUR OWN VEHICLE FOR BUSINESS TRAVEL

What journeys qualify as business travel?

Journeys that count as business travel for both tax and NICs are:

- Those you have to make in the course of doing your job. For example, if you travel from your office to visit a client and use your own car, van, motorcycle or bicycle.
- Those you make to or from a place you have to attend in order to do your job. For example, if you travel directly from home to visit a client (unless the journey is practically the same as your ordinary commuting journey, because the client's premises are just down the road from your office).

What journeys do not qualify as business travel?

Journeys that do not count as business travel include:

- Ordinary commuting - travel between your home, or any other place you attend for personal reasons (such as the home of a friend or relative) and your usual workplace, or
- Private travel - any other travel where the purpose is not for business.
- If you are paid an allowance for any journey that is ordinary commuting or private travel, your employer should deduct tax and NICs from it.

Most employees who use their own car, van, motor cycle or bicycle to travel on business are paid an allowance by their employer to cover some or all of the costs. It can be in the form of a lump sum or periodic payments, but usually the allowance is based on an amount per mile.

How does it affect my tax and National Insurance contributions?

From 6 April 2002, a new system was introduced for working out whether you have to pay tax and NICs on any payments your employer makes to you for using your own vehicle for business journeys. Under the new rules, there's a maximum amount that you can receive without paying tax. This is called an approved mileage allowance payment' (AMAP) and is calculated by using approved mileage rates. The approved mileage rates are also used to work out whether you have to pay NICs on your business motoring expenses. See National Insurance contributions for more information.

The approved mileage rates

Each year, at the beginning of December, the Inland Revenue announce the approved mileage rates for the following tax year that runs from 6 April to the following 5 April. From 6 April 2002, the approved mileage rates are:

	First 10,000 business miles in the tax year	Each mile over 10,000 miles in the tax year
Cars and vans	40p	25p
Motor cycles	24p	24p
Bicycles	20p	20p

How much can I receive without paying tax and NICs?

This depends on the type of vehicle that you use and, for cars and vans, on the number of business miles you drive in the year.

What if I am paid more than the AMAP rate?

If your employer pays you more than the AMAP rate you will be liable to pay tax on the excess. Tax will normally be dealt with through your PAYE tax code or your Self Assessment tax return, if you receive one (see TAX).

Your employer will work out whether you need to pay NICs on any motoring expenses you receive (see Calculating NICs on motoring expenses).

What if I am paid less than the AMAP rate?

If you are not paid a mileage allowance or your employer pays less than the AMAP rate you can get tax relief against your earnings for the difference. This is called 'mileage allowance relief' (MAR). If you want to claim relief you will have to keep a record of:

- Your business miles, and
- The mileage allowance payments made by your employer.

You cannot claim tax relief for any costs above the AMAP rate.

What about payments made for passengers?

If your employer pays you an allowance for business passengers the maximum amount you can get without paying tax and NICs is 5p per mile per passenger. You will be liable to pay tax and NICs on any amount over that. For payment to be free of tax and NICs the passenger must also be an employee on business travel.

If your employer pays less than 5p per mile per passenger or does not pay you an allowance for passengers you cannot claim tax relief on the difference.

What about my car insurance?

It is a good idea to check the position with your insurance provider, especially if your employer pays a passenger rate to encourage car sharing on business journeys. You will need to check that:

- The insurance company is satisfied that no profit or reward is involved, and
- Your insurance remains valid.

■ 3. TAX

Keeping records of allowances and business travel for tax purposes

To work out if the allowances you have received from your employer come to more or less than the new AMAP, you first need to know:

- What allowances* you were paid in recognition of the use of your vehicle for business travel during the tax year (a tax year runs from 6 April in one year to 5 April in the next).
- Your total business mileage during the year.
*Excluding amounts from which your employer has deducted PAYE tax.

What records do I need to keep?

It is important that you keep records of your allowances and business mileage so you can:

- Check your PAYE tax code.
- Complete a tax return fully and accurately, if you get one.
- Claim tax relief for business travel.
- Answer any enquiries from your Tax Office.

To help you, we have included a log sheet that you can use to keep a record of your allowances and business mileage.

What if I travel on business for more than one employment?

If you have two or more employments that are associated then your business travel for both is added together to work out when you have travelled 10,000 business miles.

Employments are associated if they are:

- With the same employer, or
- With different employers who are under the same control, for example, two different companies in the same group of companies.

If the employments are not associated a separate 10,000-mile limit is applied to each.

How do I work out the tax position on my business travel?

You need to:

- Work out how many business miles you have travelled in the tax year.
- Multiply the number of business miles you travelled by the AMAP rate, to give you your total approved mileage allowance payments.
- Add up all the allowances you received from your employer.
- Compare the difference between that and your total AMAP.

The following examples show you how to calculate the tax position on business travel.

Example 1

Ann uses her own car for business travel. In the tax year 2002-2003 (6 April 2002 to 5 April 2003) Ann travels 5,000 miles on business. Her employer pays her 44p a mile for all her business miles.

Step 1

Total business miles travelled 5,000

Step 2

5,000 business miles at 40p a mile £2,000

Total approved mileage allowance payments £2,000 (A)

Step 3

Allowances received from employer

5,000 at 44p per mile £2,200 (B)

Step 4

Difference between A and B **£200** (C)

If A is bigger than B, C is the amount on which Ann can claim tax relief. If B is bigger than A, C is the amount of taxable profit.

In this example, B is bigger than A so Ann has to pay tax on the profit of £200.

Example 2

Jack uses his own car for business travel. He is paid a mileage allowance of 44p a mile. Whenever he drives directly from home to a business appointment, away from his usual office, his employer does not pay for the first 20 miles that Jack would have driven if he had made his usual commuting journey. In 2002-2003, Jack travels 12,000 miles on business, but his employer pays him a mileage allowance for only 10,000 miles so he receives £4,400 (10,000 x 44p). Jack's tax position is calculated as follows:

Step 1

Total business miles travelled 12,000

Step 2

First 10,000 business miles at 40p a mile £4,000
Next 2,000 business miles at 25p a mile £ 500

Total approved mileage allowance payments
£4,500 (A)

Step 3

Allowances received from employer
10,000 at 44p per mile
£4,400 (B)

Step 4

Difference between A and B **£100** (C)
In this example, A is bigger than B so Jack can claim tax relief on £100.

Example 3

Steve uses his own car for business travel. He has two employments that are not associated. ABC Ltd pays him a mileage allowance of 30p a mile while XYZ Ltd pays him a mileage allowance of 45p a mile. In 2002-2003, Steve travels 12,000 miles on business for ABC Ltd and 4,000 business miles for XYZ Ltd. Steve's tax position is calculated as follows:

ABC Ltd - Step 1

Total business miles travelled 12,000

Step 2

First 10,000 business miles at 40p a mile £4,000
Next 2,000 business miles at 25p a mile £ 500
Total approved mileage allowance payments £4,500 (A)

Step 3

Allowances received from employer
12,000 at 30p per mile £3,600 (B)

Step 4

Difference between A and B **£900** (C)
For his employment with ABC Ltd, A is bigger than B so Steve can claim tax relief on £900.

XYZ Ltd - Step 1

Total business miles travelled 4,000

Step 2

4,000 business miles at 40p a mile £1,600

Total approved mileage allowance payments £1,600 (A)

Step 3

Allowances received from employer

4,000 at 45p per mile £1,800 (B)

Step 4

Difference between A and B **£200** (C)

For his employment with XYZ Ltd, B is bigger than A so Steve has to pay tax on the profit of £200.

Overall, Steve will be able to claim tax relief on the difference between his two employments.

**Tax relief due from ABC Ltd £900 Less taxable profit
from XYZ Ltd £200 Total relief due £700**

Work sheet

Use this work sheet to calculate your tax position using the approved mileage allowance payment (AMAP) rates.

Step 1 Total business miles travelled	
Step 2 First 10,000 business miles at p.a. mile Next business miles at p.a. mile	£ _____ £ _____
Total approved mileage allowance payment	£ _____ (A)
Step 3 Allowance received from employer	£ _____ (B)
Step 4 Difference between A and B	£ _____ (C)
If A is bigger than B, C is the amount on which you can claim tax relief	
If B is bigger than A, C is the profit you have to pay tax on.	

For all your business mileage travelled by motorcycle, use the 24p rate.

For all your business mileage travelled on your bicycle, use the 20p rate.

■ 4. CLAIMS FOR MILEAGE ALLOWANCE RELIEF

What records do I need to support a claim for mileage allowance relief (MAR)?

If you are going to claim MAR, you will need to keep records of your business mileage for the year and the mileage allowances you were paid by your employer. You can use the log sheet to record this information.

Can I get relief for the costs of cleaning my vehicle?

No.

Can I get separate tax relief for loan interest to buy my vehicle?

No.

Can I get help towards the cost of travelling to a training course?

If your employer pays or reimburses you for travel to work-related training* you will not have to pay tax or NICs on the amount paid or reimbursed. Mileage allowances can be paid tax free up to the AMAP limit. But, unlike business travel, you cannot get relief for any part of the cost of travel that exceeds the amount paid or reimbursed by your employer.

**Work-related training does not include any training you receive as a reward or inducement. For example, you cannot claim the costs of travelling to a conference in Paris if it is your reward for being one of the top ten sales people.*

Can I claim for capital allowances?

No. You will not be able to claim capital allowances for your vehicle after the end of the 2001-02 tax year.

■ 5. REPORTING INFORMATION

What information does my employer provide?

Your employer should:

- Report to the Inland Revenue, the excess of any business mileage allowances paid to you over the tax free “Approved Mileage Allowance payment” (AMAP) rate, and
- Give you details of what has been reported (or let you have a copy of the P11D report form) by 6 July after the end of the tax year.

If the payments you receive for business mileage do not exceed the tax-free AMAP rate your employer does not need to report this to the Inland Revenue.

What information do I need to keep?

If your employer pays less than the AMAP rate, you need to keep records of all your business mileage and any mileage allowances you are paid if you want to get tax relief on the shortfall. You can use the log sheet example to help you record the details of each business journey you make.

What information do I give the Inland Revenue?

It depends on whether or not you get a tax return.

What if I do not receive a tax return?

Your employer should tell the Inland Revenue if the mileage allowances they paid you exceeded the tax-free AMAP rate. If this is the case the Inland Revenue will usually collect any tax that is due through your PAYE tax code.

However, if you think you should get tax relief, send your calculation to your nearest tax office (details can be found in the phone book) or ask for the Expenses Claim form P87.

What if I receive a tax return?

Your employer should tell you if you have a taxable profit on your allowances. You should enter the amount in box 1.15 of the Employment Pages on your tax return form.

If your employer pays less than the AMAP rate you should work out the amount of tax relief that is due and enter that amount in box 1.32 of the Employment Pages on your tax return form.

LOG SHEET EXAMPLE

Business mileage and allowances

You can use this log sheet example to help you keep a record of your business mileage for the year and the mileage allowances your employer pays you.

Date of Journey details business journey	Total business miles	Mileage allowances received

■ 6. NATIONAL INSURANCE CONTRIBUTIONS

Calculating NICs on motoring expenses

Your employer should work out the amount of NICs you have to pay each time they pay you. In most cases this will be weekly or monthly.

Your employer will also work out whether you have to pay NICs on the business motoring expenses they pay you. If you do have to pay NICs on these expenses, your employer will add them to your normal weekly or monthly pay and will work out the total amount of NICs you must pay.

To work out whether you have to pay NICs on your business motoring expenses, your employer will:

- Multiply the total number of business miles that you have travelled by the approved mileage rate, to find out how much of your motoring expense can be paid free of NICs.
- Compare that figure to the amount they have paid you.

If the amount your employer has paid you is more than the NICs free amount you will have to pay NICs on the excess.

If you use your own car or van for business travel your employer should use the higher, first 10,000 mile, approved rate in all NICs calculations, irrespective of the actual number of business miles you travel.

In calculating the NICs free amount, your employer will include all payments made to you for using your own

vehicle for business purposes. This will include mileage allowances that are based on a set rate per mile, regular lump sum payments and one-off payments which are paid in recognition of the use of your vehicle for business travel.

The following three examples show you how your employer will calculate whether NICs are due on your business motoring expenses.

Example (a)

Gita uses her own car for business travel. In June 2002 Gita travels 100 miles on business. Her employer pays her 44p a mile for all her business miles.

NICs free amount

100 business miles at 40p a mile £40.00

Allowances received from employer

100 at 44p per mile £44.00

NICs due on £4.00

In this example, the mileage allowances Gita received from her employer are more than the NICs free amount so she has to pay National Insurance contributions on £4.00.

Example (b)

Fred uses his own car for business travel. He is paid £45 per month towards the costs of using his car for business travel and also 20p a mile for every business mile travelled. In September 2002 Fred travels 300 miles on business.

NICs free amount

300 business miles at 40p a mile £120.00

Allowances received from employer

Monthly payment £45.00

300 at 20p per mile £60.00

Total allowances received £105.00

Difference £15.00

Here, the mileage allowances Fred received from his employer are less than the NICs free amount so he doesn't have to pay National Insurance contributions.

Example (c)

Simon's employer pays 50p a mile for business journeys but requires Simon to deduct his normal home to office mileage from the total business miles travelled for each journey. In January 2003 Simon drives 500 business miles but his employer only pays him for 400 miles.

NICs free amount

500 business miles at 40p a mile £200.00

Allowances received from employer

400 at 50p per mile £200.00

Difference NIL

In this final example, the NICs free amount and the mileage allowances Simon received from his employer are the same so he doesn't have to pay any National Insurance contributions.

7. FURTHER INFORMATION

www.inlandrevenue.gov.uk



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