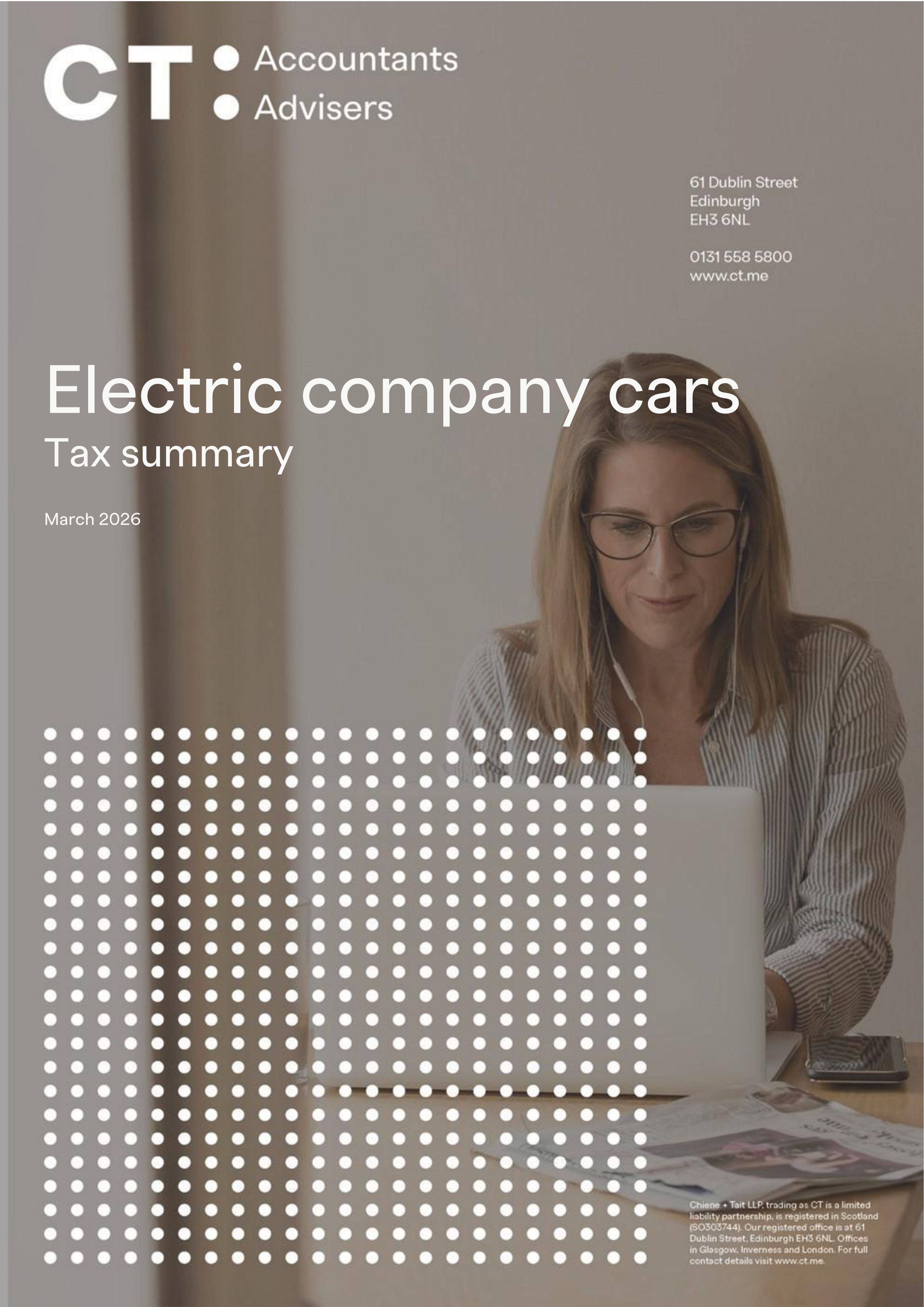

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Electric company cars

Tax summary

March 2026

Electric company cars: Tax summary

Electric cars continue to be popular and accessible due to the low benefit in kind rates, leading to a cost-effective option when acquiring a new company car. Tax reliefs have been available for low emission cars for a number of years, but the landscape is constantly evolving.

This article outlines the benefits employers should be aware of when thinking about providing electric cars to their employees.

The company car benefits rules

The provision of a company car to an employee is a taxable benefit and must be reported to HM Revenue & Customs (HMRC) via forms P11D and P11D(B). For more information on reporting benefits to HMRC please see our recent article: Reporting employee benefits 2026 | CT

- The taxable benefit value of a company car is calculated by multiplying the list price when new by the Benefit-In-Kind (BIK) % rate. The BIK % rate is determined by the CO2 emissions.
- The taxable benefit is subject to income tax at the individual's marginal rate of income tax.
- The company pays Class 1A National Insurance (NI) at 15% (for 2026/27) on the benefit.
- Example: If a 42% taxpayer was provided with a Range Rover with a list price of £80,000 and a BIK rate of 37%, the benefit value is £29,600. The individual would pay £12,432 of income tax with the company paying Class 1A NI of £4,440.

How do the benefit rules apply to electric cars?

- Electric cars (those with 0 g/km CO2) currently have a BIK rate of 4% for the 2026/27 tax year, rising to 5% in 2027/28 and 7% in 2028/29.
- Example: If a 42% taxpayer was provided with an electric car with a list price of £80,000, the benefit value would be £3,200. The individual would only need to pay £1,344 of income tax with the company paying only £480 in Class 1A NI.

- Charging a car at their place of work is an exempt benefit for employees so employers can offer free charging to their staff without any income tax charges. Find more information on this in our article: [Charging electric company vehicles at home: HMRC changes direction | CT]

- For cars with CO2 emissions between 1-50 g/km (hybrid cars) the BIK % rate is dependent on their “electric-only” range. The following table summarises the BIK % rates:

		Car first registered from 6 April 2021 BIK rate (%)		
CO_2 (g/km)	Electric range (miles)	2026/27	2027/28	2028/29
0		4	5	7
1-50	>130	4	5	18
1-50	70-129	7	8	18
1-50	40-69	10	11	18
1-50	30-39	14	15	18
1-50	<30	16	17	18
51-54		17	18	18
55-59		18	19	19
60-64		19	20	20
65-69		20	21	21
70-74		21	21	22
75-79		21	21	22
80-84		22	22	23

BIK rate increases by 1% for every 5 g/km CO2 until the maximum of 37% (38% for 2028/29).

- 4% is added to the BIK % rate for diesel engines (except those RDE2 compliant). The maximum rate cannot be extended beyond 37% (38% for 2028/29).

Salary sacrifice

- Provision of an electric car (and cars with emissions not exceeding 75g/km), can still benefit from the income tax and NI savings available under salary sacrifice (Ultra Low Emissions Vehicles or “ULEVs” are exempt from the Optional Remuneration Arrangement which restrict the tax benefits of such arrangements).

- A salary sacrifice scheme effectively allows the employee to fund the electric car benefit from before tax pay. There is an income tax and Class 1 NI saving for the employee and a Class 1 NI saving for the employer.

- The employee is still subject to income tax on the value of the benefit, with the employer paying Class 1A NI, as before. Given the low BIK % rates for low emissions vehicles, there would be an income tax saving for the employee overall.

Corporation Tax

- Since 17 April 2002 businesses have benefitted from enhanced capital allowances, on expenditure incurred for certain types of environmentally friendly vehicles, known as First Year Allowances (FYAs).

- FYAs can be claimed on the purchase of 'new' all electric cars and installation of electric vehicle charging points up until 31 March 2027.

- The qualifying CO_2 emissions threshold allowing non-electric cars to benefit from main rate capital allowances of 14% (18% before 1 April 2026) is 50 g/km. Cars above 50 g/km only qualify for 6% capital allowances.

What are First Year Allowances?

- Cars cannot benefit from the 100% Annual Investment Allowance (AIA). However, FYAs operate as a separate 100% first-year deduction from taxable profits when a qualifying asset has been purchased. The FYA is available on top of the 100% AIA.

- To qualify for FYAs, a car purchased (outright or hire purchase) must either be solely electrically propelled or have CO_2 emissions of 0 g/km. Some additional conditions, such as the car cannot be second-hand, must also be met in order to claim FYAs.

Deductions for leasing costs

- CO_2 emissions matter for leased vehicles, too. For vehicles exceeding 50 g/km, 15% of the lease hire costs are not tax deductible when calculating taxable profits. Transitional arrangements apply so that the reduction in the threshold does not affect those vehicles where the contract was entered into before 1 April 2021.

VAT

- There is a common misconception that VAT is recoverable on the purchase of electric cars due to a perceived environmental incentive. Unfortunately, this is incorrect and there is no difference in the treatment for VAT purposes between buying an electric, hybrid or traditional fuel car.

- If a car is purchased (outright or hire purchase) the VAT is only claimable if the vehicle is used exclusively (100%) for business use, and there is no private element. It is an all or nothing claim and HMRC have specified that the business must be able to prove no private use is allowed.

- If a vehicle is leased, the business will be able to claim 50% of the VAT incurred on the lease payments. The VAT would be recoverable in full if the car is used only for business and is not available for any private use.

Other incentives

- HMRC do not consider electricity a fuel and so the provision of private fuel for electric company cars is not a taxable benefit.

- The plug-in car grant scheme has been expanded to other vehicle types, including delivery trucks, vans and motorcycles. Further information is available here: https://www.gov.uk/plug-in-car-van-grants

- Road tax on electric cars first registered between 1 March 2001 and 31 March 2017: £20.

- Road tax on electric cars first registered between 1 April 2017 and 31 March 2025: £200.

- Road tax on electric cars first registered from 1 April 2025: First year: £10; Second year onwards: £200 plus “Expensive Car Supplement” of £440 if the electric car has a list price above £50,000.

Need more help?

- If you would like more information, or have any questions, please speak to Fraser McCallum (fraser.mccallum@ct.me) of our Employment Tax team.

- Information correct at March 2026.

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