

Using the car for business

The maximum amount of capital allowances that you could claim on a motor car per annum is £3,000 (i.e. 25% of an upper limit of £12,000). Therefore, in this sense the amount of capital allowances that you could claim per annum is restricted.

Therefore, if the depreciation charge of the motor car is more than £3,000 per annum, say £5,000, you would end up paying more tax on the difference between the depreciation charge (£5,000) and capital allowances (£3,000). This is because depreciation is added back to accounting profit in arriving at the taxable profit.

However, please note that this only a timing difference. Initially the depreciation charge on an expensive car would be higher since the market value drops significantly during the first few years where as capital allowances that you could claim is limited to £3,000 per annum. Therefore during the first few years, you would pay more tax.

However, as years pass by, the annual depreciation charge will drop below the annual capital allowances figure and this will result in a tax saving.

Therefore, assuming that you intend use the vehicle for a longer period you could benefit by bringing the motor car under business provided it is “wholly and exclusively” used for business.

However, if you use the motor car for private use, then the amount of capital allowances need to be adjusted to reflect the private usage.

To ascertain private usage, you need to maintain a mileage log to record total mileage, private mileage/business mileage.

Method of financing

The four general methods of financing asset acquisition include buying, hire purchase, finance lease and operating lease.

Buying - A vehicle which is bought will be capitalised in the balance sheet of the business and is depreciated annually. It qualifies for capital allowances and the amount of capital allowances that can be claimed on a motor car is restricted to £3,000 per annum. Initially tax charge would be higher as highlighted above and during the later years there'll be tax savings.

Hire Purchase - Vehicles obtained on HP are treated like outright purchase. The asset is capitalised and the outstanding liability is included in the balance sheet. The asset is depreciated and capital allowances could be claimed. Capital allowances are restricted to a maximum of £3,000 per annum. Finance charges are also deductible for tax purposes.

Finance Lease - Under finance lease arrangements, there is a primary period where charges are at full cost and secondary period where charges are at low cost. The vehicle is treated as if it had been “purchased” and is “capitalized” in the balance sheet and is

also depreciated. Rental costs are charged to the profit and loss account. For expensive vehicles allowable rental costs cannot exceed £3,000 per annum. Since capital allowances could not be claimed and allowable lease rental costs are restricted you should not consider this method of financing.

Operating Lease - The vehicle is rented for a given period which may or may not be fixed and then returned at the end. The vehicle is not capitalised and therefore there is no depreciation or capital allowances. Rentals are charged to the profit and loss account but cannot exceed £12,000 over 4 years. Again this method is not recommended.

Conclusion –

In conclusion, we could say that you can bring the motor car under business provided it is “wholly and exclusively” used for business purpose and claim capital allowances. However, capital allowances are restricted to £3,000 per annum and any private usage of the car needs to be taken into account.