

CLIENT ALERT – JULY 2009

“ACTIVE ACCOUNTING AND TAX”

VAT AND MILEAGE PAYMENTS TO STAFF

In accordance with the twice-yearly review timetable, HMRC has once again updated the “company car” mileage rates, which represent the accepted figures for tax-free reimbursement of fuel costs to company car drivers for business mileage, assuming that there are no payments for petrol made other than in respect of business mileage claims.

These rates can also be used by all registered businesses as the gross of VAT rate on which VAT can be recovered as business input tax. The main change is a reduction in the diesel rates for all engine sizes with the only other changes being to the over 2 litre petrol rate and the 1401-2000 cc LPG rate.

The revised table, showing the two previous rates as well, is as follows – the figures in brackets being the pence per mile in VAT that can be reclaimed:

Engine size	Petrol cost (per mile)			Diesel cost (per mile)			LPG cost (per mile)		
	From 1 July 2009	1 Jan to 30 Jun 2009	1 July to 31 Dec 2008	From 1 July 2009	1 Jan to 30 Jun 2009	1 July to 31 Dec 2008	From 1 July 2009	1 Jan to 30 Jun 2009	1 July to 31 Dec 2008
1400 cc or less	10p (1.304)	10p (1.304)	12p (1.787) until 1/12/08 then (1.565)	10p (1.304)	11p (1.435)	13p (1.936) until 1/12/08 then (1.696)	7p (0.913)	7p (0.913)	7p (1.043) until 1/12/08 then (0.913)
1401-2000 cc	12p (1.565)	12p (1.565)	15p (2.234) until 1/12/08 then (1.957)	10p (1.304)	11p (1.435)	13p (1.936) until 1/12/08 then (1.696)	8p (1.043)	9p (1.174)	9p (1.340) until 1/12/08 then (1.174)
over 2000 cc	18p (2.348)	17p (2.217)	21p (3.128) until 1/12/08 then (2.739)	13p (1.696)	14p (1.826)	17p (2.532) until 1/12/08 then (2.217)	12p (1.565)	12p (1.565)	13p (1.936) until 1/12/08 then (1.696)

As noted in my January 2009 "Alert" on this topic, from 1 December 2008, the VAT "fraction" is reduced to 3/23 (based on a 15% VAT rate) from the previous figure of 7/47 (based on the previous 17½% rate); this being the amount of VAT contained in an amount including VAT.

When the VAT fraction is applied to the figures above, this gives the officially sanctioned amount of VAT that can be reclaimed per mile in respect of business mileage expenses, as shown in the table.

If you have already submitted a VAT return form that may contain incorrect figures following a change, please do not worry about it – but do change to the new rates and fraction from your next return – and claim any extra to which you might be entitled!

The VAT reclaim on business mileage can amount to a significant figure and we strongly recommend that you consider reclaiming VAT on this basis if you have not previously done so.

HM Revenue and Customs have recently issued a reminder of the record keeping requirements relating to a VAT reclaim for a self-employed person, partner or director/employee's business mileage. In order for a business to be able to reclaim the VAT on mileage expenses paid at the 40p/25p rates or less, it must obtain a petrol receipt from the vehicle user in respect of each claim.

HMRC accept that the amounts on the invoices are unlikely to match the input VAT claimed and, since the input VAT can only be claimed on the fuel itself, the invoices only need to cover that amount. For example, if a vehicle user with a 1600 cc petrol car, travels 500 business miles in July 2009 and is reimbursed at 40 pence per mile, then the fuel element is $500 \times 12p = £60.00$. The vehicle user would have to submit petrol receipts totalling at least £60.00 for that month and input VAT of $500 \times 12p \times \frac{3}{23} = £7.82$ would be reclaimable.

These receipts must be retained as input tax evidence for the normal six-year period. Please remember that this applies to all forms of business mileage reclaimed including whether the amounts are paid for via a "company" credit card or through personal expenditure reimbursed on an expenses claim. Please also remember that a mileage log **must** be maintained detailing the business mileage travelled, the engine size of the vehicle used, the fuel type and the mileage rate applied.

If you have imbedded formulae, for example in expenses claims or other summaries on spreadsheets, please make sure these are changed such that VAT after 1 July 2009 is claimed only at the new rates. If you need any assistance with this, or have any queries on the matters referred to above, please do not hesitate to give either Kim Upton or me a call.

Paul Hill

This "alert" has been prepared for the general information of clients and contacts of Paul A. Hill & Co only. No liability can be taken in respect of any action taken or not taken because of relying on the information contained in this "alert" alone. Only the general position can be stated here and there are often qualifying conditions or other criteria that affect the way in which tax relief is given or other proposals will affect you or your business. You should always take individual advice based on the exact circumstances that you have before taking any form of action, or indeed refraining from any action. If you would like to follow up on any of the points in this "alert", please do not hesitate to contact me, or any of the practice staff.

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