

Mileage allowances – what is tax-free

Employees are often required to undertake business journeys by car, be it their own car or a company car, and may receive mileage allowance payments from their employer. Up to certain limits, mileage payments can be made tax-free. The amount that can be paid tax-free depends on whether the car is the employee's own car or a company car.

Employee's own car

Where an employee uses his or her own car for work, under the approved mileage allowance payments (AMAP) scheme, payments can be made tax-free up to the approved amount. The rates have not changed since 2002, and for cars (and vans) are set at 45p per mile for the first 10,000 business miles in the tax year and 25p per mile for any subsequent business miles. A rate of 24p per mile applies to motorcycles and a rate of 20p per mile applies to bicycles.

Example

Jack frequently uses his car for work and in the 2017/18 tax year, he undertakes 13,420 business miles.

Under the AMAP scheme, the approved amount is £5,355 ((10,000 miles @ 45p per mile) + (3,420 miles @ 25p per mile)).

Amounts up to the approved amount can be paid tax-free and do not need to be reported to HMRC.

Where the mileage allowance paid is more than the approved amount, the excess over the approved amount is taxable and must be reported to HMRC on form P11D in section E.

Example

The facts are as in example 1 above. Jack is paid a mileage allowance by his employer of 50p per mile.

The amount paid of £6,710 (13,420 miles @ 50p per mile) is more than the approved amount of £5,355, therefore, the excess over the approved amount (£1,355) is taxable and must be reported on Jack's P11D (unless his employer has opted to payroll the benefit).

Where the mileage allowance paid is less than the approved amount, the employee can claim tax relief for the shortfall, either in his or her tax return or on form P87.

For NIC, the 45p per mile rate is used for all business miles in the tax year, not just the first 10,000 miles.

Beware salary sacrifice

The value of the tax exemption is lost if the mileage payments are made under a salary sacrifice or other optional remuneration arrangement, and instead, the employee is taxed on the amount of salary foregone where this is higher.

Company vehicles

Where an employee has a company car, the AMAP scheme does not apply. However, mileage payments can still be made tax-free but at the lower advisory fuel rates. These are updated quarterly and the rate which can be paid tax-free depends on the engine size of the car and fuel type. The

rates are available on the Gov.uk website at www.gov.uk/government/publications/advisory-fuel-rate.

As with the AMAP rates, where the amount paid is in excess of the advisory rate, the excess is taxable.