

Paying mileage allowances tax-free

Employees are often required to make business journeys, either in their own or a company car. Most employers meet the cost of the fuel for business journeys, and it is possible to do this without triggering a tax liability.

Employees with a company car

Where an employee has a company car and meets the cost of fuel for private journeys, the employer can meet the cost tax-free as long as the payments made to the employee do not exceed the advisory fuel rates published by HMRC. These are updated quarterly and the rates applying from 1 2018 are shown below.

Engine size	Petrol	LPG
1400cc or less	12 pence per mile	8 pence per mile
1401 to 2000cc	15 pence per mile	10 pence per mile
Over 2000cc	22 pence per mile	15 pence per mile

Engine size	Diesel
1600cc or less	10 pence per mile
1601cc to 2000cc	12 pence per mile
Over 2000cc	14 pence per mile

Although electricity is not regarded as a fuel for car fuel benefit purposes, an advisory electricity rate of 4 pence per mile was introduced from 1 September 2018.

If the employer pays more than the advisory rate the profits element is taxable and liable to Class 1 (employer and employee National Insurance contributions).

Example

In November 2018 Mark drives 260 business miles in his company car and claims a mileage allowance from his employer. Mark's car is a petrol car with a 1600cc engine. As long as his employer does not pay more than 15 pence per mile, the payments are tax and NIC-free.

Employee's own car

Where the employee uses their own car for business different, higher rates apply. These reflect the costs of insurance, servicing, depreciation, etc. which are borne by the employer when an employee has a company car.

Mileage payments are tax-free if the amount paid does not exceed the approved amount. This is simply the number of business miles for the year multiplied by appropriate approved mileage rate. The rates are shown in the table below.

	Approved rate
Cars and vans	45p per mile for first 10,000 business miles in tax year

	25p per miles for subsequent business mile
Motorbikes	24p per mile
Bicycles	20p per mile

Example

Sarah drives 12,700 business miles in her own car in the tax year in question.

The approved amount is £5,175 ((10,000 miles @ 45p) + (2,700 miles @ 25p)).

As long the payments made to Sarah do not exceed £5,175, they are tax free.

For National Insurance purposes, the 45p rate for cars and vans is used for all business miles in the tax year, not just the first 10,000. In the above example, a mileage payment of up to £5,715 would be NIC-free (although anything over £5,175 would be taxable).

If the amount paid exceeds the approved amount, the excess is taxable and must be reported to HMRC on the employee's P11D or payrolled. If the employer pays less than the approved amount (or does not pay mileage), the employee can claim tax relief for approved amount less anything paid by the employee.

The employer can also pay a tax-free passenger payment of 5p per mile for each passenger also making a business journey. This may encourage car-sharing.

Keeping it tax-free

As long as the payments do not exceed HMRC's rates, they can be paid tax-free. However, this only applies to business journeys – and that excludes journeys between home and work.