

Tax-free mileage allowances

Employees often use their own cars for work, usually claiming expenses in the form of a mileage allowance to cover the costs. While it is up to the employer to decide how much to pay by way of mileage allowances, and indeed whether to pay a mileage allowance, it is the taxman who decides what can be paid tax-free.

Approved rates

The approved mileage allowance payments (AMAPs) system allows employers to make tax-free mileage payments to employees up to the 'approved amount'. This is found by multiplying the business mileage for the year by the rate per mile for the vehicle in question. Approved rates are set not only for cars but for vans, motorcycles, and bicycles too.

The approved rates are currently as follows:

Type of vehicle	First 10,000 miles	Business miles in excess of 10,000 miles
Cars and vans	45p per mile	25p per mile
Motorcycles	24p per mile	24p per mile
Bikes	20p per mile	20p per mile

For tax purposes, the rate for cars and vans drops from 45p per mile to 25p per mile once the employee has been paid for 10,000 business miles in the tax year. For National Insurance, the rules are different – the 45p rate can be paid NIC-free regardless of how many business miles the employee undertakes in the tax year.

Example

Ray is an employee. He uses his own car for business and in the 2017/18 tax year undertakes 14,755 miles in his own car.

Under the AMAPs system, the tax-free 'approved' amount is £5,688.75 ((10,000 miles @ 45p) + (4,755 miles @ 25p)).

Tax implications

Paying mileage allowances at the taxman's approved rates is the simplest option from a tax perspective – there are no tax consequences and the payments can be ignored by the employer and the employee.

If the mileage payments made by the employer exceed the approved amount, the excess (the 'taxable mileage profit') is taxable and must be notified to HMRC on the employee's P11D (in section E), unless the employer has opted to payroll the mileage profit. So, if in the above example, Ray was paid 50p per mile, he would receive a mileage payment of £7,377.50 - £1,688.75 more than the approved amount. He would be taxed on the 'profit' of £1,688.75.

Where the allowances paid by the employer are below the approved amount, or if the employer does not make mileage payments, the employee can claim tax relief for the difference between the amount actually received (if any) and the approved amount. The relief can be claimed either on the employee's tax return or on form P87.

Passenger payments

Employees can also be paid a tax-free passenger payment of 5p per passenger per mile for each fellow employee to whom they give a lift, as long as the journey is a business journey for the driver and passengers alike.