Using the advisory fuel rates

While company cars remain a popular benefit, few employers now pay for all the fuel (business and private) used by an employee in driving a company car, as successive tax hikes mean that the provision of fuel for private journeys is rarely a worthwhile benefit. Instead, the employee will often pay for all the fuel and claim that used for business journeys back from the employer.

The easiest way to do this is to pay the employee a mileage rate. To make life easy, HMRC publish advisory fuel rates which can be used for this purpose. The rates are set in pence per mile by reference to engine size and fuel type. They are updated each quarter.

The rates applying from 1 September 2017 are as follows:

Engine size	Petrol – per mile	LPGT – per mile
1400cc or less	11 pence	7 pence
1401cc to 2000cc	13 pence	8 pence
Over 2000	21 pence	13 pence

Engine size	Diesel – per mile
1600cc or less	9 pence
1601cc to 2000cc	11 pence
Over 2000cc	12 pence

Where an employer reimburses an employee for business travel in a company car at or below the advisory fuel rate for the period, HMRC accept that there is no taxable profit and no Class 1A NICs are due. Where the employer pays more than the advisory rate, the excess is taxable and liable to Class 1A NICs.

An employer is not bound by the advisory rates and can agree higher tax-free rates with HMRC that better reflect their circumstances – for example, if employees have a particular need for vehicles with higher than average fuel consumption.

Other uses

The advisory rates can also be used by employees whose employers pay for their fuel to pay back the cost of fuel used for private mileage to prevent a fuel benefit charge from arising.

The advisory rates represent fuel only rates and as such can be used to work out the VAT that can be reclaimed where an employer makes mileage allowance payments to employees who use their own cars for work. However, VAT receipts should be obtained from the employee to back up the VAT claim.