

# BIK: SIGNIFICANT CHANGES TO COMPANY CAR TAXATION

Significant changes to the basis of taxing the benefit-in-kind (BIK) arising from the provision of a company car will come in to effect from 1 January 2023.

The new provisions, which are already on the statute book and are therefore not dependent on the forthcoming Budget, will change the basis of the charge from one based solely on the *original market value* (OMV) of the car and business mileage travelled, to one which also takes account of the vehicle's CO<sub>2</sub> emissions. This will result in a higher level of BIK being imposed on cars with higher emissions. The changes will apply to existing company cars as well as new cars provided to employees *on or after 1 January 2023*. Employers who provide cars to their employees will need to take account of these changes in their payroll systems and also review the calculation of current BIK charges.

The BIK cash equivalent on the use of an employer provider car will be determined based on both the business mileage undertaken and the vehicle's CO<sub>2</sub> emissions. Please find details below.

**The amount of business mileage and CO<sub>2</sub> emission category is as per the following table:**

Lower Limit (km)	Upper Limit (km)	A %	B %	C %	D %	E %
—	26,000	22.5	26.25	30	33.75	37.5
26,001	39,000	18	21	24	27	30
39,001	52,000	13.5	15.75	18	20.25	22.5
52,001	—	9	10.5	12	13.5	15

**The CO<sub>2</sub> emissions category of the car is as per the following table:**

Vehicle Category	CO <sub>2</sub> Emissions (CO <sub>2</sub> g/km)
A	0g/km up to and including 59g/km
B	More than 59g/km up to and including 99g/km
C	More than 99g/km up to and including 139g/km
D	More than 139g/km up to and including 179g/km
E	More than 179g/km

## NEW BASIS COMPARED TO OLD

At present the BIK on company cars is calculated at the rate of 30% of the original market value of the car. A discounted rate is granted where the employee incurs significant business related travel. Currently there are five mileage bands which provide for a BIK charge ranging from 30% to 6% of OMV depending on the level of business mileage incurred. These will be reduced to four bands.

The new system will retain both OMV and business mileage as factors in calculating the BIK charge, however it will also take account of the vehicle's CO<sub>2</sub> emissions. For many users with cars in the middle of the emissions range, it is likely that the BIK charge under the new system will remain the same as at present. Those with cars in the highest emission range (*over 179g/km*) will however see an increase in the percentage benefit-in-kind charge across all mileage bands, with a new maximum rate of cash equivalent/benefit-in-kind of 37.50%. Furthermore, the minimum BIK rate after discounts for business mileage will increase from 6% to 9%.

### Example

- Employee has use of a car provided by his or her employer on **1 January 2022**.
- The **OMV** of the car is **€28,000**.
- The car produces **180g/km in CO<sub>2</sub> emissions**.
- The actual business kilometres travelled in the year are **32,000 kilometres**.

### Current Basis

The cash equivalent/BIK is equal to:

$$\text{OMV} \times 24\% (\text{€}28,000 \times 24\%) = \text{€}6,720$$

### New Basis effective 1 January 2023

*180g/km in CO<sub>2</sub> emissions* puts the car in **vehicle category E** under the new system.

The applicable BIK rate is **30%**.

The Cash Equivalent/BIK is equal to:

$$\text{OMV} \times 30\% (\text{€}28,000 \times 30\%) = \text{€}8,400$$

## ELECTRIC CARS

The legislation also provides for the tapering (reduction) of the current BIK exemption for electric vehicles (EVs). This will see the current exemption reducing as follows:

Year	BIK Exemption for EVs
2022:	€50,000
2023:	€35,000
2024:	€20,000
2025:	€10,000
2026:	NIL

## COMPANY VANS

The flat rate BIK charge on company provided vans, currently set at 5% of OMV will increase to 8% from 1 January 2023. The exemption for electric vans will be tapered on the same basis as for electric cars from 2023.

## SUMMARY AND ACTIONS REQUIRED

Employers who provide cars or vans to their employees for private use will need to review the treatment of these benefits *in advance of 1 January 2023* to determine the impact of the changes and to ensure that the correct notional pay is subject to tax with effect from 2023. In light of current pressure on fuel prices and the need to address climate change, it may also be an appropriate opportunity to consider whether the provision of cars as a benefit-in-kind continues to be an appropriate part of remuneration policy going forward.

Our employment tax team has wide experience in relation to the taxation of company cars and other employment benefits and is available to assist your business in managing these changes.



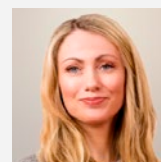
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