



## Did you know you can claim back VAT on mileage expenses?

If you drive your own car for business and claim mileage expenses (e.g. 45ppm), then you claim VAT on the fuel portion of the mileage expense – if your business is VAT registered (not flat-rate).

Just to recap, most of us, who drive our own vehicles for business, are aware of the HMRC Approved Mileage Allowance Payments (AMAPs). When an employee (or the business owner) uses their own vehicle for business trips they can claim an allowance for their mileage. The HMRC recommended rate for cars is 45 pence per mile, reducing to 25 pence per mile after 10,000 miles.

### Claiming VAT on the fuel portion of the mileage expense

The Approved Mileage Allowance Payment is intended to cover the cost of fuel, wear and tear, insurance and vehicle tax incurred by the driver on business trips. It is the VAT on the cost of fuel (or *fuel portion*) that can be recovered by the business.

So how do we calculate the *fuel portion* for a business trip? The easiest way is to use the **Advisory Fuel Rates**, published by HMRC.

### HMRC Advisory Fuel Rates

The Advisory Fuel Rates are defined by HMRC as the amount that can be paid, tax-free, to company car drivers who pay for their own fuel and use a company car for business journeys. HMRC allows the Advisory Fuel Rates to be used to calculate the fuel portion of the mileage claim.

The rate depends on the type of fuel (petrol, diesel or LPG) and the size of the engine, for your car, van or motorbike. For hybrid cars, use the relevant fuel type.

You cannot claim VAT on mileage for electric cars. HMRC do not accept electricity is a 'fuel' for these purposes – and as such there is no 'fuel' on which to reclaim VAT.

| Engine Size      | Petrol – Amount Per Mile | LPG – Amount Per Mile |
|------------------|--------------------------|-----------------------|
| 1400cc or less   | 11 pence                 | 7 pence               |
| 1401cc to 2000cc | 13 pence                 | 8 pence               |
| Over 2000cc      | 21 pence                 | 13 pence              |

| Engine Size      | Diesel – Amount Per Mile |
|------------------|--------------------------|
| 1600cc or less   | 9 pence                  |
| 1601cc to 2000cc | 11 pence                 |
| Over 2000cc      | 12 pence                 |

*NOTE: These rates are updated quarterly.*

## How to calculate VAT on mileage

Now we have a way to determine the fuel portion (using the Advisory Fuel Rates), we can calculate the VAT on this fuel portion. This VAT is the amount that we can claim on the mileage expense.

### The formula

The formula for calculating the VAT on mileage is:

**Fuel portion** = advisory fuel rate x business miles claimed

**VAT** = fuel portion / 6

Hence:

**VAT on mileage** = (advisory fuel rate x business miles claimed) / 6

(N.B. The fuel portion is divided by 6 as the fuel portion already includes VAT at 20% ie 20/120=6).

## Example 1

If you drive 50 miles a day on business, it is roughly 3,000 miles a quarter. If your car has a 2.5 litre petrol engine, then you can claim VAT on fuel of £105.

### **Assumptions:**

The Advisory Fuel Rate for this quarter and this car (2.5 litre petrol engine) is 21 pence per mile

The mileage is 3,000 miles

### **Calculations:**

Fuel portion of mileage claim =  $21p \times 3,000 \text{ miles} = \text{£}630$

The VAT on mileage is  $\text{£}630 / 6 = \text{£}105$

Your business is treated as having made VATable purchases of fuel of £630 (inclusive of VAT) and your VAT bill is reduced by £105.

**N.B. Fuel receipts need to be kept for the value of £630.**

## Example 2

If you drive your own car (1.5 litre petrol) 1,500 miles for business in September 2017, then you can claim VAT on fuel of £32.50

### **Assumptions:**

The Advisory Fuel Rate for September 2017 is 13 pence per mile applying to petrol cars falling in the 1401cc to 2000cc band.

The mileage is 1,500 miles

### **Calculations:**

Fuel portion of mileage claim =  $13p \times 1500 \text{ miles} = \text{£}195.00$

The VAT on mileage is  $\text{£}195 / 6 = \text{£}32.50$

Your business is treated as having made VATable purchases of fuel of £195 (inclusive of VAT) and your VAT bill is reduced by £32.50.

**N.B. Fuel receipts need to be kept for the value of £195.**

## Can employers claim VAT on mileage for employees?

If you employ staff who drive their own vehicle for business trips, then you can claim the VAT on their fuel too. There are, however, some caveats:

The drivers must be employed by the company, i.e. not contract staff. This is because contract staff are employed by a different business and your own business cannot claim the VAT input tax on behalf of a different business.

You must be paying your staff a mileage allowance for driving their own vehicle for business. The mileage allowance must cover the fuel portion of the mileage claim.

## Fuel receipts to support claiming VAT on mileage

The question often arises “***Do I need to keep fuel receipts, as I’m not claiming for the fuel I purchased?***”. The answer is yes, you must keep the fuel receipts if you want to claim the VAT on the mileage expenses.

**In Example 1** above, you need fuel receipts of £630 (at least) to cover the VAT claim of £105.

**In Example 2** above, you need fuel receipts of £195 (at least) to cover the VAT claim of £32.50. The dates on the fuel receipts must be before the end date of the claim.

**Note** that if you drive outside the UK on business, then you can’t claim the VAT on the fuel purchased outside the UK. Only receipts for fuel purchased in the UK can be used to reclaim VAT input tax. For example, if you drive from Belfast to Dublin on business you can’t claim the VAT on the fuel purchased in the Republic of Ireland. Fuel receipts from other countries in the EU cannot be used. Likewise, there is no VAT on fuel in Guernsey, so fuel receipts purchased in Guernsey cannot be used.

## Does it matter if we don’t have the fuel receipts?

Yes it does – a claim should only be made if supported by receipts.

In the event of a VAT inspection, HMRC may refuse the claim if the VAT receipts are missing.

## In summary

If you are a VAT registered business paying mileage expense to you or your staff, you can claim back VAT on the fuel-only portion of the mileage expense – but remember to collect VAT receipts for fuel purchased to back up the claim.

Was this all confusing? Do you want a simpler option?

*All clients of Cashtrak are given the option to use an app to help with tracking of their mileage and therefore allowing us to ensure the correct calculation is applied to the mileage.*

*For more information please do contact us.*