

Payroll

Mileage Rates: Amounts to be claimed and P87s

There are approved mileage rates that can be used, both by the self-employed and by the employed. These can be found at: -

<http://www.hmrc.gov.uk/rates/travel.htm>

There are statutory maximum amounts, which can be paid for the use of a car/van for business purposes (without having to pay tax and National Insurance contributions (NICs)). There are also rates applicable to motor cycles and bicycles. The statutory rates since 2002 are: -

Cars and Vans

On the first 10,000 miles in the tax year 40p per mile

From 1st April 2011 the rate has increased to 45p per mile

On each additional mile over 10,000 miles 25p per mile

Motor cycles 24p per mile

Bicycles 20p per mile
All business miles

Per passenger – cars/vans 5p per mile
Employer payment only

Where an amount paid is greater than the levels above, the individual is liable to pay tax and NICs on the difference.

For the Self employed, the mileage rates above form part of the mileage expense used within the accounts.

If the amount paid by an employer is less than the levels detailed, then the employee is entitled to claim tax relief on the difference. There are 2 different methods to apply for the relief: -

If the taxpayer is filling in an annual self-assessment, the total amount can be added into: -

Travel and Subsistence Costs – Long Version SA100
Claim for allowable Expense – Short Version

If the Taxpayer does not receive a self-assessment then Form P87 should be completed and returned to the office handling their payroll.

The Inland Revenue has also sent out form P810 (T).

When a business is VAT registered a proportion of the mileage can be claimed from the mileage payments.

Of the 40p per mile allowed a proportion will be for the fuel element, and this is flexed due to the fact that fuel costs rise and fall.

The claim the VAT element the fuel element needs to be stripped out of the mileage total and then the VAT fraction applied.

Current advisory rates for the fuel costs for cars of different engine sizes can be found at

http://www.hmrc.gov.uk/cars/advisory_fuel_archive.htm

An Example

The employee travels to a supplier and does 50 miles each way. This journey can be charged at 40p per mile

Total mileage	100 miles
At 40p per mile	£40 to reclaim

The car engine size is 1600cc petrol engine, so the employer is entitled to 15p as the fuel element.

Fuel element	15p
Total Mileage	100 miles
Total to claim VAT	£15
At VAT fraction (1/6)	£2.50 VAT to recover

To be able to claim the VAT element the employer must retain enough VAT receipts for fuel to cover the total VAT for the year. These receipts are not part of the VAT calculation, but are for reference only to confirm that VAT registered businesses have been used to purchase the fuel.

Another point to note is when employees purchase fuel. If the employee is directly reimbursed for fuel through expenses they should be informed prior to that purchase. During recent PAYE audits where employees are reimbursed the cost of fuel HMRC are saying that the employee has to prove that the fuel was purchased on behalf of their employer and has to tell the garage that they are doing this. They expect employers to prove this which is almost impossible, but by getting the employee to sign a statement on their expense claim that they have done this is acceptable. Apparently this relates to a case over 12 years ago which HMRC have apparently suddenly decided to enforce.