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Technical update - Benefits in kind (*avantages en nature*) of company cars in France

1 Introduction

If an employer provides an employee with a company car, the private usage of such a vehicle by the employee, outside of working hours, constitutes a benefit in kind or *avantage en nature*. The use of a company car to travel from home to the workplace is **not** considered to be part of the benefit in kind, as long as the employer is able to demonstrate that:

- the use of the vehicle is necessary for the work;
- the employee is unable to use public transport to get to work (either because of poor transport connections between their home and workplace or because of the hours or conditions of the work).

Benefits in kind are taxable in France in the same way as an employee's salary. This is achieved by adding the benefit in kind to the gross salary on an employee's payslip. Social security deductions are calculated on this **total** amount. The benefit in kind is then removed once the deductions have been made from the overall amount, giving the net salary to be paid to the employee. It should be noted however, that this net salary paid to the employee is not net in the English sense of the word, as income tax has not yet been deducted from it. In France income tax is not paid through the PAYE system as in England. Instead employees must declare their income at the end of the financial year (in France this is the same as the calendar year). The income tax is then calculated and paid in the following tax year.

2 Definitions of different types of company car available in France

Company car (*véhicule de fonction*): vehicle provided to an employee by an employer authorised for use during and outside of working hours.

Service vehicle (*véhicule de service*): vehicle provided by a company to an employee exclusively for professional use during working hours only.

Commercial vehicle (*véhicule utilitaire*): vehicle used specifically for the transportation of goods e.g. forklift, lorries etc.

Of the above, only a *véhicule de fonction* gives rise to a benefit in kind since a *véhicule de service* is only used for professional purposes during working hours and a *véhicule utilitaire* does not constitute a benefit in kind provided that it is stated in the company's rules and regulations that such a vehicle is for professional use only.

3 Calculating the benefit in kind for a company car (*véhicule de fonction*)

The benefit in kind associated with a company car can be calculated using one of two methods at the choice of the employer:

- 1 actual annual expenses (*dépenses réelles*) to include:
 - the annual depreciation charge of the cost of the vehicle inclusive of VAT;
 - annual petrol costs (corresponding to private usage only, not including home to work journey);
 - annual insurance costs;
 - annual maintenance costs.

- 2 an annual flat rate amount (*forfait annuel*) calculated as a fixed percentage of the purchase cost of the vehicle including VAT. If the employer pays for petrol, either the actual petrol cost used for private journeys is added to the flat rate amount, or an increased flat rate is used.

The table below summarises the different calculation methods of benefit in kind values for a company car that is owned (not rented) by the company:

Method used		Amount of the taxable benefit	
		Time elapsed since purchase of vehicle by company	
		≤ 5 years	> 5 years
Actual expenses	Petrol paid by employer	20% of purchase cost + insurance cost + maintenance cost	10% of purchase cost + insurance cost + maintenance cost
	Petrol paid by employee	20% of purchase cost + insurance cost + maintenance cost + petrol cost for personal journeys	10% of purchase cost + insurance cost + maintenance cost + petrol cost for personal journeys
Flat rate	Petrol paid by employer	9% of purchase cost + petrol cost for personal journeys OR 12% of purchase cost	6% of purchase cost + petrol cost for personal journeys OR 9% of purchase cost
	Petrol paid by employee	9% of purchase cost	6% of purchase cost

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4 Example scenario and calculation of benefit in kind values

Assumptions made:

- 1 The vehicle is owned by the company (as opposed to renting it, for which different rates apply).
- 2 The vehicle is for the use of one employee only.
- 3 The vehicle is stand-alone and not part of a fleet.
- 4 Evaluation to be calculated over a 12 month period i.e. the car is available for the employee to use during an entire year.
- 5 The employee does not contribute financially to the cost of the vehicle.

Values used:

- Purchase cost of vehicle including VAT: € 40,000
- Annual cost of petrol used for personal journeys: € 1,800
- Annual insurance cost: € 1,000
- Annual maintenance cost: € 2,000
- Percentage of mileage for personal use: 30%
- Monthly gross salary of a member of senior management: € 15,000

Table of annual benefit in kind values using both methods:

Method used		Taxable benefit in kind	
		Time elapsed since purchase of vehicle by company	
		≤ 5 years	> 5 years
Actual expenses	Petrol paid by employer	5,100	3,900
	Petrol paid by employee	3,300	2,100
Flat rate	Petrol paid by employer	5,400 or 4,800	4,200 or 3,600
	Petrol paid by employee	3,600	2,400

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4.1 Annual effect on employee of benefit in kind

Using the upper and lower bounds of the benefit in kind values from the table above:

	No car	Lower bound	Upper bound
Monthly benefit in kind (BIK) /€	0	175	450
Monthly net salary /€	11,624	11,604	11,573
Decrease in annual net pay (A) /€	-	240	618
Annual taxable salary /€	145,480	147,400	150,416
Annual income tax bill /€	46,115	46,902	48,139
Increase in tax of having BIK (B)	-	787	2,024
Total annual cost of BIK to employee (A + B)	-	1,027	2,642

The table above shows that the inclusion of a benefit in kind causes the employee's cash salary received to decrease and their taxable salary to increase thereby increasing their income tax payable. The overall result is a cash cost to the employee of between € 1,027 and € 2,642.

4.2 Annual effect on employer of providing one company car to one employee

Depreciating the car over five years gives the following results:

	€	€
Monthly benefit in kind value	175	450
Corporation tax		
Annual depreciation charge of car	8,000	8,000
Annual maintenance costs	2,000	2,000
Annual insurance costs	1,000	1,000
Increased social charges on BIK	567	1,459
Total annual cost of providing car (A)	11,567	12,459
Corporation tax saved (B)	(3,856)	(4,153)
TVS payable (C)	1,770	1,770
Total annual cost of company car to employer (A+B+C)	9,482	10,076
Total cost of company car to employer over five years	47,408	50,380

The table above shows that a benefit in kind results in a saving of corporation tax since the expenses associated with the car (such as depreciation charge and maintenance etc) can be deducted from taxable profits. However, the benefit in kind will cause an increase in staff costs for the employer. The employer will also be required to pay tax on each company car they own or rent called *taxe sur les véhicules des sociétés* (see below). The saving in corporation tax is outweighed by the other costs payable.

4.2.1 Company car tax (*Taxe sur les véhicules des sociétés*) (TVS)

This tax is payable in one instalment annually from 1 January 2018 onwards (it was previously payable quarterly) by companies on all vehicles owned or rented for business purposes and is non-deductible from the profits of the business.

It is calculated for each vehicle by adding together the following elements:

- 1 a rate based either on the CO₂ emissions of the vehicle or the power of the engine;
- 2 a rate based on pollutant gas emissions, the type of fuel used and the registration date.

For a car with a registration date in 2010, running on petrol, with CO₂ emissions of 150 g/km this gives an annual tax of € 1,770.

5 Conclusion

If the employee were to purchase a car at a cost of € 40,000 paying over a five year period this would cost € 8,000 per year plus interest. The provision of the same car by their employer would cost the employee a maximum of € 2,642 per year in taxes. Therefore it is more advantageous from the employee's perspective to have a company car as opposed to buying one themselves. But at the end of the day the car still belongs to the employer.

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