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2021: year of the electric company car?

Covid-19 interrupted many things in 2020. One of them was what could have been the year of the electric car.

Since April 2020, the tax on all-electric company cars has been zero in the UK. With 50 per cent of new vehicles going to the fleet market, this should have been the industry equivalent of slamming your foot on the accelerator of a Tesla Roadster (0-60 in 1.9 seconds). Instead it has been like driving uphill in a Reliant Robin.

There has been some progress, though. Latest figures from the Society of Motor Manufacturers and Traders show that last year 108,205 battery electric vehicles were sold in the UK — almost three times as many as in 2019 and one in 15 of all sales.

More than one in four cars bought had some electric drive capacity, if you count the various hybrids. This was in a year that car sales overall were down by nearly 30 per cent.

Expect a lot of pent-up demand in the year ahead — and much of it to be targeted towards electric cars, especially among drivers who have a company car or own their own company. The tax perks are outstanding.

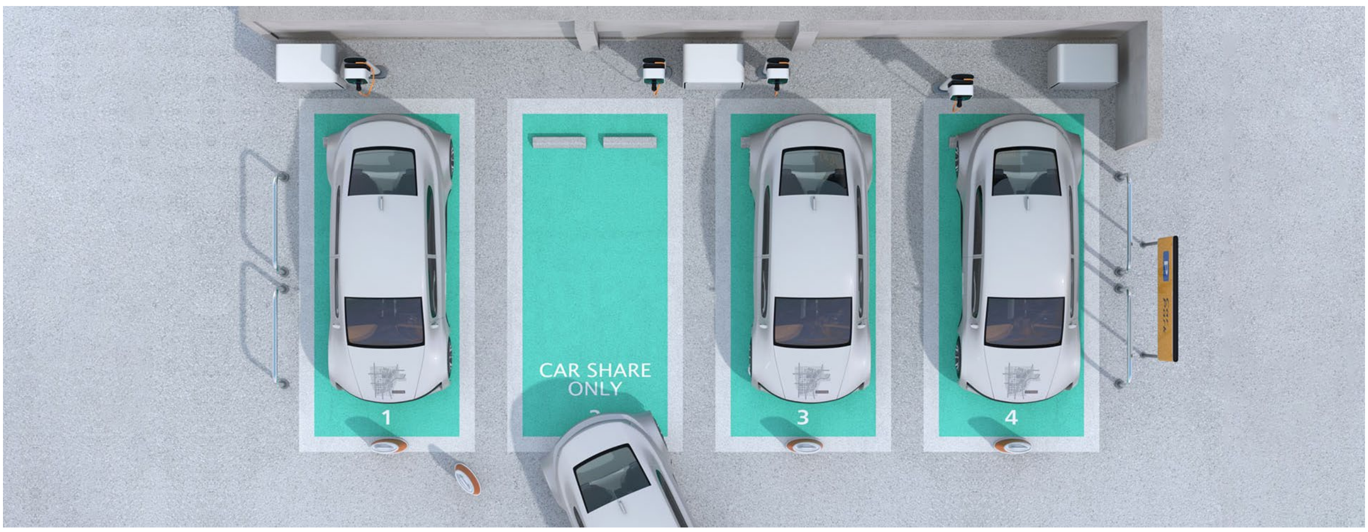
Someone who in April picked up the keys to a sporty, petrol-fuelled BMW 3-series company car (146g/km of CO_2) will pay a benefit in kind (BIK) tax of 32 per cent, rising to 34 per cent by 2022-23. Had they opted instead for a top-of-the-range Nissan Leaf E+, for a similar price, the BIK would be zero this year, 1 per cent next and 2 per cent the year after. Over three years a higher-rate taxpayer opting for the BMW will pay around £13,700 in tax; the Nissan Leaf driver just £423.

An electric car can also cost half as much to run, and you pay no road tax. You are also exempt from paying the London congestion charge, potentially worth thousands a year to a daily commuter.

For business owners there are extra perks. Any income in the £100,000-£125,000 bracket is effectively taxed at 60 per cent, because for every £2 that your income is above £100,000 you lose £1 of your personal allowance. I have clients in that territory who are contemplating buying themselves an electric company car instead of taking the income. They figure that 0-2 per cent in tax is a lot more palatable than up to 60 per cent.

Brand new zero-emission cars qualify for a 100 per cent first-year allowance, which means company owners can write off the whole cost of the car against their profits in year one — reducing their corporation tax bill, too. Charging the car at the office is not a taxable benefit either.

There are, of course, obvious downsides to buying electric. Even accounting for a government grant of up to £3,000



(and £350 towards the cost of installing a home charger), electric vehicles are still typically £5,000-£10,000 more expensive than petrol car equivalents.

But the biggest issue for many drivers is range anxiety — the fear of running out of energy mid-journey or having to hunt down an available charging point on a long trip as you stare in panic at your sinking battery meter.

You could buy a plug-in hybrid. You will probably compromise on boot space for the batteries. And your BIK rates are likely to rise — the plug-in hybrid version of the BMW 3-series costs an extra £6,000 and has a BIK of 10 per cent this year, rising to 12 per cent in 2022-23. It will typically do 37 miles before the petrol engine kicks in.

Over three years a higher-rate taxpayer will pay around £5,400 in BIK tax. Is it worth it? It depends on whether most of your driving is around town.

The range issue will subside for pure electric cars as technology improves. More public charging points are being installed across the country — there are now nearly 37,000 in around 13,000 locations, and several hundred more are being added each month.

All the major car manufacturers are ramping up production of electric cars. Volkswagen has pledged to invest £65bn in their development over the next five years and is working on 70 models.

Investors who have seen Tesla shares rise nearly eightfold in the past year may think that is a cue to invest in VW or other car manufacturers. They are certainly on more attractive multiples, but James Hambro & Partners' investment team takes a different view. All these cars are going to have more semiconductors on them because they are having to deal with electrification of the drive train. We believe that by owning companies in that space instead you get the benefit of the trend for arguably less risk.

When it comes to depreciation, so far electric cars have held their value surprisingly well. It is difficult to say what will happen as more models come on stream and the prices of new cars tumble.

So is it time to leap? Certainly an electric company car on lease is worth exploring, but I do not expect the BIK rates to remain so low for long. They were similarly alluring for hybrids a few years ago, but a Toyota Prius (94g/km CO_2) now attracts a BIK of 21 per cent.

On the other hand, the government is determined to drive us to electric, announcing in November that new cars fuelled purely by petrol or diesel will no longer be sold in the UK by 2030. Hybrids have an extension to 2035, with caveats.

One cannot rule out future measures to make ownership of fossil-fuel vehicles more expensive — which could underpin second-hand electric car prices. It does not surprise me that for many of my sustainability-minded clients buying an electric car is top of their list of new year resolutions.