Summary: Intervention & Options

Department /Agency: HMRC	Title: **Amendment of employer reporting requirement on form P46 (Car)**	
Stage: Implementation	**Version:** 1	**Date:** 11 March 2009
Related Publications: None.		

Available to view or download at:

http://www.hmrc.gov.uk/better-regulation/ia.htm

Contact for enquiries: Basil Rajamanie **Telephone:** 020 7147 2384

What is the problem under consideration? Why is government intervention necessary?

Form P46 (Car) is a quarterly return that employers have to submit for each employee earning at a rate of £8,500 per annum or more when a car is made available for private use, withdrawn or when one car is replaced with another. Employers are also required to report the amount of the benefit to HMRC on forms P11D at the end of the year. The P46 (Car) reduces the risk of large underpayments of tax accruing but that risk is small when one car is replaced by another. The administrative burden implications of requiring a return in these circumstances needs to be considered.

What are the policy objectives and the intended effects?

The Government has policy objectives to reduce administrative burdens on businesses. The objective in this case is therefore to reduce the administrative burden on business by limiting the circumstances in which employers need to submit a P46 (Car). Employers will only be required to submit a form P46 (Car) when an employee is provided the benefit of a company car for the first time or when they cease to have a company car. Employers will however still be required to report the amount of the benefit charge relating to company cars made available to employees on form P11D at the end of the tax year.

What policy options have been considered? Please justify any preferred option.

1. Do nothing.
2. Abolish the P46 (Car) altogether.
3. Remove the requirement to send a quarterly return when one car is replaced with another.

Having considered the pros and cons the Government believes that options 1 and 2 would not be appropriate. The Government's preferred option is to remove the requirement to submit the return where one car is replaced with another.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The policy will be reviewed as part of the Compliance Cost Reviews programme once it has bedded in sufficiently.

Ministerial Sign-off For Implementation Stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

Angela Eagle ....Date: 7/3/09

Summary: Analysis & Evidence

Policy Option: 3	Description: Remove the requirement to send a quarterly return when one car is replaced with another.

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'	
One-off (Transition)	Yrs		
£ Neg			
Average Annual Cost (excluding one-off)			
£ Nil		Total Cost (PV)	£

Other **key non-monetised costs** by 'main affected groups'

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups' Administrative burden saving from not having to send in a quarterly return where one company car which attracts car benefit is replaced with another.	
One-off	Yrs		
£ Neg			
Average Annual Benefit (excluding one-off)			
£ 1.1m		Total Benefit (PV)	£ £1.1m

Other **key non-monetised benefits** by 'main affected groups'

Fewer forms for HMRC to process and fewer in-year tax code change notifications.

Key Assumptions/Sensitivities/Risks No impact on company car tax yield.

Some data which is currently reported on P46 (Car) will be lost, but this data will be available when the end of year return P11D is received.

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £

What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			6 April 2009	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ Neg	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			£ N/A	
What is the value of changes in greenhouse gas emissions?			£ N/A	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro Neg	Small Neg	Medium Neg	Large Neg
Are any of these organisations exempt?	No	No	No	No

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of	£ 0	Decrease of	£ 1.1m	Net Impact	£ Decrease £1.1m

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Evidence Base (for summary sheets)

Background

In 1994/95 the rules which determined the value of the provision of a company car for private use changed. The value of the benefit was calculated by reference to the list price (incl. VAT) plus any optional extras. The form P46 (Car) was introduced in the same year so that the benefit could be reported to HMRC fairly soon after it was made available to the employee.

The P46 (Car) is a statutory form (introduced by SI 1994/775). Employers must complete one for each employee earning at a rate of £8,500 per annum or more (subject to the benefits code) if any of the following take place:

- The employee is first provided with a car to which car benefit applies.
- One car that attracts car benefit is replaced by another.
- The employee is provided with a second car to which car benefit also applies.
- A car that attracts car benefit is withdrawn and is not replaced.
- An employee becomes an employee for whom form P11D is appropriate instead of one for whom form P9D is appropriate, so that car benefit begins to apply to a car already provided to that employee.

Employers are required to send the completed form P46(Car) to HMRC within 14 days from the end of the quarter to 5 July, 5 October, 5 January or 5 April in which any of the above events has taken place. The employer is also required to report the same information to HMRC on forms P11D, but those forms do not have to be submitted until 7 July; three months after the end of the tax year in which the car was first provided or changed. Employers and their representatives have expressed their irritation at having to provide the same information twice (via P46 (Car) and P11D).

The benefit of a company car usually carries a high value in terms of the amount liable for tax and prior to the introduction of the P46 (Car) it was not uncommon for significant underpayments of tax to accrue. This is because information about the provision or change of company car was not available to HMRC until the employee notified HMRC or the end of year return of expenses and benefits on form P11D was received. Because the P46 (Car) is a quarterly return it allows the right amount of tax to be collected from the employee through an adjustment to his tax code in the year in which the benefit is available. By adjusting the tax code in-year and collecting tax in the year in which the benefit is provided the risk of large underpayments accruing could be reduced.

Employers can send the P46 (Car) to HMRC in paper format (forms and lists) and online. The electronic forms are processed automatically but there is usually a delay in processing the paper forms and this has added to the irritation faced by employers.

Policy rationale

The aim of this proposal is to reduce the administrative burden on employers by limiting the circumstances in which a form P46 (Car) is required. In future employers will only be required to send in a form P46 (Car) for employees who are subject to the benefits code where a car or a second car has been provided for the first time or where a car has been withdrawn and not replaced with another.

Policy options

The following options were considered.

1. Do nothing.
2. Abolish the form altogether.
3. Limit the circumstances in which a P46 (Car) needs to be completed.

Do nothing

This was not considered appropriate because there were clearly circumstances when employers had to submit a form P46 (Car) even when there would be no significant increase or decrease in the amount of tax that had to be paid. The amount of the benefit charge is also reported at the end of the tax year on form P11D. In these cases the administrative burden placed on employers in having to send the form to HMRC cannot be justified and by doing nothing the Government would be missing an opportunity to reduce unnecessary administrative burdens.

Abolish the form altogether

The current statutory requirement on employers is to report details of company cars or changes to company cars on a form P46 (Car). This enables an employee's tax code to be amended as soon as possible after the event which helps to prevent significant underpayments or overpayments of tax accruing on the benefit. The risk of significant underpayments or overpayments accruing when an employee is given a car for the first time or refunds becoming due for those employees who have had their car taken away during the year without it being replaced is significantly increased if HMRC is not notified when the benefit is given or withdrawn.

If the P46 (Car) is abolished, HMRC will have to rely on the employee reporting the matter to HMRC so that the tax code could be adjusted in the year in which the benefit was provided or withdrawn. However, there is no obligation on the employee to notify HMRC so if the employee does not do this voluntarily, there would be a significant underpayment of tax in the year in which the benefit was first provided. If the P46 (Car) is abolished, the obligation on the employer to report details of the benefits will be limited to the end of year return (form P11D), which is not due until July of the following year. Where a high value benefit such as a car is provided or withdrawn, a significant underpayment or overpayment of tax for the previous year would have accrued by the time the form P11D is received and processed.

Limit the circumstances in which a P46 (Car) needs to be completed

This option removes the requirement to send in the quarterly return when one car is replaced with another during the year. In the majority of cases, this does not cause a significant increase or decrease in the amount of tax that needs to be paid by the employee. Because the employee already had a company car, his tax code would have been adjusted to take account of the tax due on the benefit so the only question would be whether the new car gives rise to a larger or smaller benefit. The increase or decrease in tax due in such cases is unlikely to be significant and can easily be recovered through an adjustment to the tax code in the following year when the form P11D is processed.

In April 2007, HMRC introduced automatic coding of benefits data returned on end of year form P11D, which has increased the speed at which tax codes are amended to reflect the value of benefits in kind reported on those forms. Automatic coding has gone a considerable way towards ensuring that the tax code of employees reflect a more up to date position of that employee's benefits in kind.

Pros

- Minimal risk of significant underpayment or overpayment of tax.
- Significant reduction in employer administrative burden.
- Fewer forms for HMRC to process.
- Fewer in-year amendments to tax codes, especially where only a small change in tax is due.

Cons

- In a limited number of cases there could a fairly sizeable change in the tax code to recover an underpayment from the previous year's tax. This would only happen when the cash value of the benefit of the replacement car is much higher than the cash value of the original benefit.
- Requires an amendment to the current legislation contained in Regulation 90 of the PAYE Regulations 2003.

Costs and Benefits

HMRC received approximately 400,000 forms P46 (Car) in 2005-06, the latest year for which data is available. Of this number, approximately 43% relate to notifications of changes to a company car where one company car which attracts car benefit is replaced with another. Once this proposal is implemented employers will not have to send in the quarterly return for employees where the only change is one car being replaced with another.

Impact on Administrative Burden

The administrative burden is calculated using the Standard Cost Model (SCM), which is an activity based costing methodology which considers the activities that a business needs to do to comply with their legal obligations and estimates the cost of such activity for a normal business. Based on the SCM the activity of completing and submitting the quarterly return P46 (Car) to HMRC costs employers £2.6m. The cost of completing and submitting the return where one car has been replaced with another costs employers about £1.1m per annum. Once this requirement is removed the total employer administrative burden in respect of notifying company car benefits to HMRC on form P46 (Car) will reduce by £1.1m.

Other costs

Software providers and publishers may incur a small cost in amending their products but these are done on an annual basis anyway so it is unlikely to be passed on to end clients. There will be a small cost to HMRC in amending both the paper and electronic versions of the form P46 (Car) and the guidance.

Exchequer impact

This proposal is not expected to increase or decrease tax yield from company car benefit.

Implementation

The change to the reporting requirement will be implemented from the 2009-10 tax year. The quarterly returns that are due on 7 July 2009 and all subsequent returns will not require details of changes to the benefit where one car has been replaced with another.

Specific Impact Tests

Competition

No impact on competition is expected.

Small Firms Impact Test

The change potentially affects all businesses. The impact will be wholly positive because the proposal imposes no new burdens whatsoever and relieves some that currently exist. An increased benefit is expected for this sector from the removal of this reporting requirement so there is no reason why they should be excluded.

Legal Aid

There are no legal aid implications as the measure only removes a reporting requirement.

Sustainable Development, Carbon Assessment and other Environmental Impacts

There is no impact on environmental issues.

Health

There is no impact on health.

Race, Disability and Gender Equality

There are no impacts on race, disability or gender issues.

Human Rights

There are no human rights issues arising from the removal of this reporting requirement.

Rural Proofing

There are no different impacts in rural areas.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No