

EXPLANATORY MEMORANDUM TO
THE INCOME TAX (CAR BENEFITS) (REDUCTION OF VALUE OF
APPROPRIATE PERCENTAGE) (REVOCATION) REGULATIONS 2010

2010 No. 695

1. This explanatory memorandum has been prepared by HM Revenue and Customs (HMRC) and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

2. **Purpose of the instrument**

2.1 The taxable benefit on company cars made available for private use is determined by multiplying the list price of the vehicle by the appropriate percentage (normally based on CO₂ emissions). Sections 139 and 140 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) provide for the appropriate percentage for cars. This instrument revokes, with effect from the tax year 2011-12, various reductions applied by the Income Tax (Car Benefits) Reduction of Value of Appropriate Percentage Regulations 2001 (the 2001 Regulations) to the appropriate percentage in respect of certain types of cars or cars which use particular types of fuel or technology with the exception of wholly electrically propelled cars. Revocation of the reduction for wholly electrically propelled cars will take effect from the tax year 2010-11.

2.2 In the case of diesel cars complying with Euro IV standards and registered before 1 January 2006 (sometimes referred to as early uptake Euro IV diesels), the exemption from the diesel supplement to the appropriate percentage is also revoked with effect from the tax year 2011.

2.3 In every other case, apart from wholly electrically propelled cars, the reductions made available by the 2001 Regulations will be removed and the appropriate percentage for the level of emissions produced (as set out in ITEPA) will apply. This affects cars using particular fuels (road fuel gas, bi-fuel, bioethanol, or a mixture of bioethanol and petrol where the level of bioethanol is 85 per cent by volume) in order to focus the company car benefit charge on vehicle CO₂ emissions rather than on particular technologies. Hybrid cars using a mixture of electricity and petrol will also be affected. In all cases, only cars which emit more than 120 grams CO₂ per kilometre are affected.

2.4 Regulation 4 of the 2001 Regulations reduced the appropriate percentage for wholly electrically propelled cars by 6 per cent to 9 per cent. As this reduction has been incorporated into primary legislation, regulation 4 is no longer required.

3. Matters of special interest to the Select Committee on Statutory Instruments

3.1 None.

4. Legislative Context

4.1 Where a company car which is available for private use is made available to an employee by their employer or otherwise by reason of their employment, there is a chargeable benefit in kind generally known as company car tax (see section 114 ITEPA). For cars, the cash equivalent of the benefit (needed to determine income tax assessable on the individual and the level of Class 1A National Insurance Contributions payable by the employer) is calculated by applying the appropriate percentage (normally based on the car's CO₂ emissions) to the published list price of the vehicle.

4.2 For cars with a CO₂ emissions figure first registered on or after 1 January 1998, section 139(1) ITEPA provides that the appropriate percentage depends on whether the car is a qualifying low emissions car for the year or whether the car's CO₂ emissions exceed the lower threshold for the year: it sets out the appropriate percentage for cars in these and intermediate categories. For cars first registered on or after 1 January 1998 without a CO₂ emissions figure, section 140 ITEPA provides that the appropriate percentage for wholly electrically propelled cars is 15 per cent, for cars with an internal combustion engine that the appropriate percentage depends on engine size, and in any other case that it is 35 per cent.

4.3 This instrument revokes the 2001 Regulations and regulations amending them to remove the reductions to the appropriate percentage so that the level of taxable benefit is set by the level of CO₂ emissions rather than by type of fuel or technology propelling the vehicle.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

- *What is being done and why*

7.1 The changes are consistent with the Government's environmental objectives of encouraging a transition to lower-carbon transport by incentivising the uptake and use of lower-emitting company cars through tax changes, focussing on reducing CO₂ emissions without favouring particular technologies. These changes will take effect from tax year 2011-12 with the

exception of those for wholly electrically propelled cars, which will take effect from the tax year 2010-11.

7.2 The current system for valuing the benefit for company cars based on the published list price and the appropriate percentage was introduced by section 59 of the Finance Act 2000. This replaced the previous benefit charges based on the list price and the cubic capacity of the car's engine.

7.3 Changes to the relevant legislation on the appropriate percentage were introduced by section 53 of the Finance Act 2009. These Regulations give effect to the remaining adjustments required in connection with those changes.

7.4 The reduction to the appropriate percentage for wholly electrically propelled cars prescribed by regulation 4 of the 2001 Regulations was incorporated into primary legislation by paragraph 7 of Schedule 28 to the Finance Act 2009 to take effect as from 6 April 2011. However, it has since been announced that wholly electrically propelled cars will be subject to a 5-year tax exemption from the taxable benefit charge with effect from 6 April 2010, and it is intended to amend primary legislation for this purpose. Consistently with this, regulation 4 of the 2001 Regulations is being revoked with effect from 6 April 2010, ahead of the other regulations being revoked by this instrument, to ensure that the appropriate percentage for electrically propelled cars is at least 0 per cent as from 6 April 2010.

8. Consultation outcome

8.1 Consultation was not appropriate.

9. Guidance

9.1 The relevant HMRC guidance will be amended in line with the Regulations.

10. Impact

10.1 An Impact Assessment has not been produced for this instrument as it has a negligible impact on business, charities or voluntary bodies.

10.2 No impact on the public sector is foreseen.

11. Regulating small business

11.1 The legislation applies to small business.

11.2 A Small Firms Impact Test has not been undertaken because the legislation does not alter the operation of existing procedures.

12. Monitoring & review

12.1 HMRC will continue to monitor the company car benefits regime and will review and amend the appropriate percentage if it is appropriate.

13. Contact

Mrs Su McLean-Tooke
1E/07
100 Parliament Street
London
SW1A 2BQ

Tel: 020 7147 2665

Email: susan.mclean-tooke@hmrc.gsi.gov.uk