

EXPLANATORY MEMORANDUM TO

THE VAN BENEFIT AND CAR AND VAN FUEL BENEFIT ORDER 2015

2015 No. 1979

1. Introduction

- 1.1 This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

- 2.1 With effect from 6 April 2016, this instrument increases the figure in section 155(1B) of the Income Tax (Earnings & Pensions) Act 2003 (ITEPA) which is used to calculate the cash equivalent of the benefit of a van provided to an employee from £3,150 to £3,170.
- 2.2 With effect from 6 April 2016, this instrument increases the multiplier, the figure provided for in section 150(1) of ITEPA used in combination with the appropriate percentage to calculate the cash equivalent of the benefit of car fuel provided to an employee, from £22,100 to £22,200.
- 2.3 With effect from 6 April 2016, this instrument increases the van fuel benefit charge provided for in section 161(b) ITEPA from £594 to £598.

3. Matters of special interest to Parliament

Matters of special interest to the Select Committee on Statutory Instruments

- 3.1 None.

Other matters of interest to the House of Commons

- 3.2 As this instrument is subject to the negative resolution procedure and has not been prayed against, consideration as to whether there are other matters of interest to the House of Commons does not arise at this stage.

4. Legislative Context

- 4.1 This instrument is made by Her Majesty's Treasury under the order-making power provided in section 170(1A)(b) and (c), (2), (5) and (6) of ITEPA.

Van benefit charge

- 4.2 Where an employee is provided with a van by reason of his or her employment and the employee uses the van for their private use, and this exceeds the restricted private use condition, there is a chargeable benefit in kind generally known as the van benefit charge. The private use condition allows for the van to be used for what is for practical purposes substantially ordinary commuting and business travel, provided that any other private use is insignificant.
- 4.3 The cash equivalent of the benefit is a flat rate figure provided for in section 155(1B) ITEPA. Section 155(1C) provides for a percentage reduction of the flat rate figure for particular tax years for vans which are not capable of producing any CO₂ emissions when being driven .

- 4.4 The current system for valuing the benefit to employees for vans made available for private use which is not insignificant was introduced by section 80 and paragraphs 1 and 5 of Schedule 14 to the Finance Act 2004. For the tax years 2005-06 and 2006-07, the cash equivalent was £500 if the van was less than 4 years old at the end of the relevant tax year and £350 if it was older. Finance Act 2004 also set the cash equivalent for all vans, irrespective of age, with effect from 2007-08. The Van Benefit and Car and Van Fuel Benefit Order 2014 increased the cash equivalent to £3,150.
- 4.5 This instrument increases the van benefit charge from £3,150 to £3,170 with effect from 6 April 2016.

Car and Van Fuel Benefit Charges

- 4.6 Where an employee, to whom the car or van benefit charge applies, receives fuel for from their employer or otherwise by reason of their employment, there is a taxable benefit in kind generally known as the fuel benefit charge (provided for in section 149 ITEPA for cars and section 160 ITEPA for vans). If the whole of the cost of fuel used for the employee's private use is made good in full in the relevant tax year, the fuel benefit charge is reduced to £0.
- 4.7 For cars, the cash equivalent of the fuel benefit charge is calculated by applying the appropriate percentage (normally based on the car's CO₂ emissions) to a notional annual value (the multiplier) for the fuel. This calculation was introduced by section 34 of the Finance Act 2002 and replaced previous fuel scale charges. The multiplier was originally set at £14,400 for the years 2003-04 to 2007-08 and was increased over the years to £22,100 for 2015-16. The fuel benefit charge reflects a notional value for the fuel made available for private use.
- 4.8 For vans, the cash equivalent of the fuel benefit charge is a flat rate figure provided for in section 161 ITEPA. The provision of a fixed sum for valuing the benefit of fuel provided by an employer for private use in a van subject to the van benefit charge was introduced by section 80 of the Finance Act 2004. This was originally set at £0 for the years 2005-06 to 2006-07, £500 for the years 2007-08 to 2009-10, and then increased over subsequent years to £594 in 2015-16.
- 4.9 This instrument increases the multiplier in respect of fuel for cars from £22,100 to £22,200 with effect from 6 April 2016, and the taxable benefit in respect of fuel for vans from £594 to £598, also with effect from 6 April 2016.

5. Extent and Territorial Application

- 5.1 The instrument extends to all of the United Kingdom
- 5.2 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

- 6.1 The Exchequer Secretary to the Treasury has made the following statement regarding Human Rights:

“In my view the provisions of the Van Benefit and Car and Van Fuel Benefit Order 2015 are compatible with the Convention rights.”

7. Policy background

What is being done and why

- 7.1 The instrument implements an uprating measure introduced as part of Budget 2015, when the government announced that the cash equivalent of the van benefit, the car fuel benefit multiplier and the van fuel benefit will increase in line with inflation (based on the September 2015 RPI figure) in 2016-17. This instrument must come into force on 31 December 2015 to ensure the correct figures are available for the 2016-17 PAYE coding process in January 2016.

Van Benefit Charge

- 7.2 The changes are consistent with the government's broader objectives of ensuring that those who use company vans for private purposes make a fair contribution to the public finances.
- 7.3 Increasing the van benefit charge will strengthen the disincentive to undertake unnecessary driving for private purposes. The cash equivalent may be reduced if the employee makes payments for private use of the van to reduce their van benefit charge liability.

Car and Van Fuel Benefit Charge

- 7.4 The changes are consistent with the government's broader environmental objective of encouraging a transition to lower-carbon transport by using tax changes to incentivise the use of lower-emitting company cars and vans. The changes are also consistent with the government's broader objective of ensuring that those who use company cars and vans for private purposes make a fair contribution to the public finances.
- 7.5 Employees who do not wish to pay this charge can simply opt out of receiving free fuel for private use and instead buy their own fuel, or make good in full the cost of fuel provided by the employer for private use. There are also existing provisions for reclaiming the cost of business travel in company cars.

8. Consultation outcome

- 8.1 Consultation was not appropriate as this is an uprating measure.

9. Guidance

- 9.1 The changes were announced at Budget 2015 and the relevant HM Revenue and Customs guidance will be amended in line with this Order.

10. Impact

- 10.1 The impact on business, charities or voluntary bodies is expected to be negligible.
- 10.2 The impact on the public sector is expected to be negligible.
- 10.3 An Impact Assessment has not been prepared for this instrument. This legislation uprates the level of the relevant benefit charges where a flat rate charge applies by inflation only. The car fuel benefit charge will also be affected by changes to the appropriate percentage for cars which have already been set out in legislation.

11. Regulating small business

- 11.1 The legislation applies to activities that are undertaken by small businesses.

11.2 HM Revenue and Customs did not consult small businesses as this is not a policy change but simply an uprating of benefits.

12. Monitoring & review

12.1 The instrument does not include review provisions as in the opinion of the Exchequer Secretary to the Treasury it is not appropriate in the circumstances to do so. Conducting a review would be disproportionate to the economic impact of the relevant regulations. Regulations relating to the van benefit charge and the car and van fuel benefit charges are normally reviewed on an annual basis.

13. Contact

13.1 The Employment Income Team at HM Revenue and Customs Telephone: 03000 521589 or email: employmentincome.policy@hmrc.gsi.gov.uk can answer any queries regarding the instrument.