EXPLANATORY MEMORANDUM TO

THE CAPITAL ALLOWANCES ACT 2001 (CARS EMISSIONS) ORDER 2016

2016 No. 984

1. Introduction

1.1 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.

2. Purpose of the instrument

2.1 The 100 percent first-year allowances (enhanced capital allowances or 'ECAs') for low CO_2 emission cars expire on 31 March 2018. This instrument extends that period to 31 March 2021. It also amends the qualifying emissions threshold for ECAs from 75 grams per kilometre driven to 50 grams per kilometre driven, and for main rate of capital allowances from 130 grams per kilometre driven to 110 grams per kilometre driven.

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 Section 45D of the Capital Allowances Act 2001 contains the provisions relating to the ECA scheme for low CO_2 emission cars.

4.2 Section 45D(1)(a) provides that the scheme ends on 31 March 2018. Section 45D(4) provides that cars must not exceed 75 grams of CO_2 to qualify for ECAs.

4.3 Section 104AA(4) provides that the applicable CO_2 emissions figure in relation to cars must not exceed 110 grams per kilometre driven to qualify for the main rate of capital allowances.

4.4 This measure announced at Budget 2016 continues Government policy of reducing CO_2 emissions from cars in the UK.

5. Extent and Territorial Application

5.1 The extent of this instrument is the United Kingdom.

5.2 The territorial application of this instrument is the United Kingdom.

6. European Convention on Human Rights

6.1 The Financial Secretary to HM Treasury has made the following statement regarding Human Rights:

In my view the provisions of the Capital Allowances Act 2001 (Cars Emissions) Order 2016 are compatible with the Convention rights.

7. Policy background

What is being done and why

7.1 These time-limited capital allowances schemes for low-emission cars are part of a range of measures to encourage the reduction in the UK's carbon emissions, and were introduced in 2002. The schemes, which have been extended a number of times, enable a business to claim accelerated tax relief on its spending on qualifying low emission cars. They are designed to encourage all businesses to invest in low-emission forms of transport and reduce their carbon footprint by improving their cash flow.

7.2 As cars have become more efficient and to ensure that the allowances remains effectively targeted, the qualifying emissions threshold has been updated to ensure that only the cleanest cars qualify. This provides an incentive for both manufacturers to target their research and development towards emissions reductions, and for car buyers to adapt their purchasing behaviour.

7.3 This legislation is required to further extend the scheme and reduce the thresholds.

Consolidation

7.4 None - this Order does not amend another Statutory Instrument.

8. Consultation outcome

8.1 HMRC considered that formal consultation was not required as the Government does not generally consult on legislation containing straightforward technical changes.

9. Guidance

9.1 Relevant guidance will be updated as appropriate as part of the normal process of review.

10. Impact

10.1 The impact on business, charities or voluntary bodies is negligible.

10.2 There is no impact on the public sector.

10.3 In addition, the measure also lowers the lease rental restriction (LRR) from April 2018, meaning businesses can only deduct 85% of any rental payments against their taxable profits. The LRR falls in line with the capital allowances main rate threshold to 110g/km and will be legislated in Finance Bill 2017.

10.4 A Tax Information and Impact Note covering this instrument will be published on https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins.

11. Regulating small business

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

11.2 No specific action is proposed to minimise regulatory burdens on small businesses.

12. Monitoring & review

12.1 The measure will be kept under review through communication with affected taxpayer groups.

13. Contact

13.1 Tunde Ojetola at the HM Revenue and Customs. Telephone: 03000 585 916 or email: tunde.ojetola@hmrc.gsi.gov.uk can answer any queries regarding the instrument.