EXPLANATORY MEMORANDUM TO

THE INCOME TAX (CAR BENEFITS) (REDUCTION OF VALUE OF APPROPRIATE PERCENTAGE) (AMENDMENT) REGULATIONS 2007

2007 No. 3068

1. This explanatory memorandum has been prepared by HM Revenue & 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. Description

This instrument further amends the Income Tax (Car Benefits) (Reduction of Value of Appropriate Percentage) Regulations 2001 (SI 2001/1123) ("the Car Benefits Regulations").

It prescribes a reduction of 2% of the value of the appropriate percentage in relation to cars which are constructed so as to be capable of running on bioethanol or on a mixture of 85% bioethanol and unleaded petrol (commonly known as "E85").

It also updates legislative references following the enactment of the Income Tax (Earnings and Pensions) Act 2003 (c. 1) ("ITEPA").

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

None

4. Legislative Background

4.1 These Regulations are made by the Treasury under section 170(4) of ITEPA.

4.2 The primary legislation on the income tax charge on cars made available for the private use of employees by reason of their employment ("company cars") was originally in the Income and Corporation Taxes Act 1988 ("ICTA") and is now in Part 3 Chapter 6 of ITEPA.

4.3 That legislation prescribes that the cash equivalent of the benefit is calculated as the list price multiplied by the appropriate percentage.

4.4 The Car Benefit Regulations (previously amended by the Income Tax (Car Benefits) (Reduction of Value of Appropriate Percentage)

(Amendment) Regulations 2005 (S.I. 2005/2209)) reduce the value of the appropriate percentage for cars capable of using specified fuels.

4.5 This instrument adds one further reduction to those already in existence, for cars manufactured to be capable of running on E85.

4.6 The opportunity has also been taken to update all other references to the relevant provisions in ITEPA. In regulation 2 (interpretation), the definition of “Schedule 6” (means Schedule 6 to ICTA) has not been omitted because it still has some application in relation to regulation 3 of the Car Benefits Regulations which, although it has been revoked in relation to cars registered on or after 1st January 2006, still applies to cars registered before that date.

5. Extent

This instrument applies throughout the United Kingdom.

6. European Convention on Human Rights

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

7. Policy background

7.1 Reforms to car benefit which came into effect in 2002 changed the way that company cars are taxed to better protect the environment. They provide an incentive for company car drivers and their employers to choose more fuel efficient cars and encourage manufacturers to produce cars with lower carbon dioxide emissions.

7.2 The Car Benefits Regulations provide an added incentive to choose cars powered by alternative, environmentally friendly fuels. Under those Regulations, company cars capable of running on certain alternative fuels (for example, LPG) enjoy a reduction in the appropriate percentage compared to a petrol-only equivalent car. The principal aim of these reductions is to improve local air quality as well as to encourage early take up of this technology.

7.3 The Government announced in the 2007 Budget that cars capable of running on E85 will be entitled to a 2% reduction in the appropriate percentage from 6 April 2008.

7.4 These Regulations give effect to that announcement.

8. Impact

A regulatory impact assessment has not been prepared for this instrument as it has no impact on business, charities or voluntary bodies.

9. Contact

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