

EXPLANATORY MEMORANDUM TO

THE VAN BENEFIT AND CAR AND VAN FUEL BENEFIT ORDER 2017

2017 No. 1176

1. Introduction

- 1.1 This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs (HMRC) on behalf of Her Majesty's Treasury (HMT) 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 2018, this instrument increases the multiplier, the figure provided for in section 150(1) of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA), used in combination with the appropriate percentage to calculate the cash equivalent of the benefit of car fuel provided to an employee, from £22,600 to £23,400.
- 2.2 With effect from 6 April 2018, this instrument increases the figure in section 155(1B) of ITEPA, which is used to calculate the cash equivalent of the benefit of a van provided to an employee, from £3,230 to £3,350.
- 2.3 With effect from 6 April 2018, this instrument increases the van fuel benefit charge provided for in section 161(b) ITEPA from £610 to £633.

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 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 HMT 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 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 2016 increased the cash equivalent to £3,230.
- 4.5 This instrument increases the van benefit charge from £3,230 to £3,350 with effect from 6 April 2018.

Car and Van Fuel Benefit Charges

- 4.6 Where an employee, to whom the car or van benefit charge applies, receives fuel 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 providing 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 is calculated by applying the appropriate percentage (normally based on the car's CO₂ emissions) to a notional annual value (the multiplier). 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 £22,600 for 2017-18. 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 is a fixed sum which 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 £610 in 2017-18.
- 4.9 This instrument increases the multiplier in respect of fuel for cars from £22,600 to £23,400 with effect from 6 April 2018, and the taxable benefit in respect of fuel for vans from £610 to £633, also with effect from 6 April 2018.

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 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 instrument implements an uprating measure introduced as part of Autumn Budget 2017, 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 2017 RPI figure) in 2018-19. This instrument comes into force on 31 December 2017 to ensure the correct figures are available for the 2018-19 PAYE coding process in January 2018.

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 Charges

- 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 Autumn Budget 2017 and the relevant HMRC guidance will be amended in line with this instrument.

10. Impact

- 10.1 The impact on business, charities and voluntary bodies is expected to be negligible.
- 10.2 The impact on the public sector is expected to be negligible.
- 10.3 A Tax Information and Impact Note covering this instrument will be published on the HMRC website at <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 HMRC did not consult small businesses as this is not a policy change but simply an uprating of benefit charges.

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 Victor Rushton at HMRC, Telephone: 03000 521589 or email: employmentincome.policy@hmrc.gsi.gov.uk, can answer any queries regarding the instrument.