HM Treasury

Review of WLTP and vehicle taxes:
summary of responses

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Introduction

Background

1.1 At Budget 2018, the government announced a review of the impact of the Worldwide harmonised Light vehicles Test Procedure (WLTP) on vehicle taxes which are linked to carbon dioxide (CO_2) emissions. The review sought evidence on the impact of WLTP on reported CO_2 emissions, and views on whether changes are therefore required to Vehicle Excise Duty (VED) and company car tax.

1.2 At Autumn Budget 2017, the government announced that cars registered from April 2020 will be taxed based on WLTP figures. WLTP aims to be more representative of real world driving conditions, compared to the previous test known as the New European Driving Cycle (NEDC). As a result, reported emissions are expected to increase which could impact VED and company car tax.

1.3 The government published the 'Review of WLTP and Vehicle Taxes' on 19 December 2018 which closed for responses on Sunday 17 February. In total, 195 responses were received made up of 36 organisations and 170 individual responses. A list of organisations who responded is provided in Annex A.

1.4 This document summarises the responses received and sets out the government's decisions on how to proceed. The government is very grateful to all individuals and organisations who formally responded to the review, provided data and discussed the issue with officials.

Chapter 2

Summary of responses

2.1 This chapter summarises the main points raised in response to the questions asked in the review.

Impact of WLTP on reported CO_2 emissions

2.2 The review sought evidence on the impact of WLTP on reported CO_2 emissions and zero emission range for plug-in hybrids to determine how tax liabilities could be impacted for cars chosen from April 2020.

2.3 As WLTP includes a longer cycle time, further driving phases and includes additional accessories, evidence provided through the review suggests WLTP values will be higher than NEDC values. These increases in reported CO_2 emissions have differing impacts on VED and company car tax, due to the structures of both taxes.

2.4 Respondents provided data showing increases in CO_2 values ranging from 7% to 40%. Therefore, WLTP values do not match NEDC values in a uniform way. Whilst difficulties exist when drawing firm conclusions due to the range of impacts, evidence provided through the review suggests the following:

- on average, WLTP results in reported CO_2 values about 20-25% higher than NEDC
- cars with smaller engines, and lower emissions, see above average increases in reported WLTP values. Conversely, cars with higher CO_2 emissions are not impacted to the same extent
- diesel cars are impacted slightly more than petrol models
- additional accessories and options packages selected by the consumer impact WLTP values
- overall, CO_2 values for alternatively fuelled cars are impacted more than conventionally fuelled cars, however mixed evidence was provided for plug-in hybrids
- zero emission mileage figures are likely to fall

2.5 As set out in the review, at Budget 2018 the Office for Budget Responsibility (OBR) assumed an increase in Exchequer revenue by adjusting the VED and company car tax forecasts from April 2020. VED receipts are forecast to increase by around £200 million a year on average from 2020-21 onwards. Company car tax receipts are forecast to increase by £100 million in 2020-21, rising to £400 million in 2023-24. This is the OBR's central estimate which recognises that some uncertainty exists in the data provided.

2.6 Reported increases in WLTP values were shown to have variable impacts on VED and company car tax liabilities for identical cars chosen after April 2020. VED changes were shown to be highly dependent on whether cars reported NEDC values above or below the average CO_2 emissions level for new cars (121g CO_2/km in 2018[1]). The graduation of first year VED offers clear incentives for individuals to choose cars with CO_2 emissions below 150g/km. On the basis of evidence presented, more cars will be liable to pay VED in these higher bands.

2.7 Table 2.1 illustrates this point, showing a car with NEDC values 20% above and below the 121g CO_2/km average, and how this impacts VED, based on 2019-20 rates.

Table 2.A: Impact on first year VED of 20% increase in CO_2 values due to WLTP

NEDC: CO_2 emissions (g/km)	First year VED	WLTP: CO_2 emissions (g/km)	First year VED	Difference
97	£130	116	£170	£40
121	£170	145	£210	£40
145	£210	174	£855	£645

2.8 The impact on company car tax liabilities is more consistent due to the CO_2-based bands being equally spaced apart. As the maximum appropriate percentage for company cars is 37%, a number of respondents noted that cars with high NEDC values could see no change under WLTP. Conversely, the appropriate percentages for many other company cars with lower CO_2 emissions would change. However, the government estimates that only around 2% of company cars currently attract a 37% rate, and therefore these impacts are likely to be small[2].

2.9 Respondents highlighted that individuals choosing company cars are more price sensitive compared to private buyers, and the company car tax system is therefore effective in influencing behaviour.

2.10 Most respondents noted the impact of equivalent-NEDC (e-NEDC) figures, which was out of scope for this review. These have been used to calculate tax liabilities between September 2018 and April 2020, to provide time for manufacturers to reflect new WLTP values in all of their products. E-NEDC values are converted from WLTP values using the EU's computer simulation tool, known as CO_2MPAS (CO_2 model for passenger and commercial vehicles simulation). Some evidence was provided regarding differences between NEDC and e-NEDC, with respondents noting average increases of between 5-10%.

2.11 Several respondents highlighted that the true impact of WLTP could not currently be assessed. For example, it was cited that the data continues to be at an early stage and only a limited number of comprehensive studies exist comparing official NEDC and WLTP values. Further, existing studies provide

[1] https://www.smmt.co.uk/reports/co2-report/

[2] Table 4.4, https://www.gov.uk/government/statistics/analysis-of-company-cars-by-co2-emissions-and-fuel-type

inconsistent results or large variations between manufacturers. Therefore, some respondents suggested that findings need to be tempered accordingly.

Model specific impacts

2.12 NEDC tests are not conducted on every model, but on a 'family' of models whereas WLTP values depend, in part, on a consumer's decisions to purchase additional accessories.

2.13 Respondents emphasised that this 'model specific' testing greatly impacts the range of reported values achieved under WLTP. It was noted that a single vehicle model could now attract a range of CO_2 values, placing it in several tax bands. For example, evidence provided suggested that, for several popular models, the increase in reported CO_2 emissions could range from 7% to 37% dependent on model variant chosen. In this scenario, the change in VED liability paid on first registration ranges from £0 to £350. One respondent noted that:

"On specific models, there is a range of values impacted by different trim levels and accessories. The difference between a models low CO_2 range and high CO_2 range can be as much as 20g/km"

2.14 Although most respondents argued that motorists should not pay additional VED or company car tax due to these 'model specific' impacts, it was noted that the concept of cars with additional accessories paying a higher tax rate is well established. For example, company car tax and parts of the VED system are based on list price which includes the list price of any accessories chosen.

Considerations for changes

2.15 The review asked respondents for their views on how the government should balance environmental, economic and other factors when considering if changes are required and how these could be delivered.

Economic impacts

2.16 The predominant view was that not adjusting tax rates on introduction of WLTP could impact sales of new cars, or exacerbate recent falls in new registrations. However, only limited evidence could be provided on the impact of WLTP in isolation. Wider factors, such as the falling demand for diesel cars, were also cited as further challenges.

2.17 In the short term, respondents noted potential distortion ahead of April 2020 as consumers may bring forward purchasing decisions to avoid potential tax increases on new cars. Over the longer term, respondents noted that increasing the cost of new cars could reduce demand, impacting the wider industry and other tax revenues such as VAT. It was emphasised that industry is not currently able to absorb additional VED costs on behalf of consumers due to wider market conditions and other recent tax changes.

2.18 Conversely, various respondents noted that VED is only a small proportion of a car's total cost of ownership, impacting only first year rates. Therefore, increases may not significantly impact purchasing decisions.

Environmental considerations

2.19 Differing views existed regarding the environmental impacts of introducing a tax adjustment. Most respondents highlighted the role of company cars during the transition to ultra low and zero emission cars. The transport sector's contribution to the UK's overall CO_2 emissions was also underlined.

2.20 Data submitted showed that average CO_2 emissions for company cars are lower than for cars chosen through personal leasing or through the second-hand market. In part, this is because company cars are more likely to be diesel. One trade association reported that:

"Data suggests that the average personal lease car emits 11% more CO_2 than a company car, while the average grey fleet car (138g/km) produces 22% more CO_2."

2.21 Several respondents disagreed with the government's suggestion that not adjusting VED and company car tax rates would help to achieve our climate change and air quality objectives. In particular, respondents put forward the case that:

- Keeping individuals in the company car market is important to encourage individuals to choose cars with the lowest CO_2 emissions. Not introducing an adjustment to the company car tax system could increase the numbers of individuals opting out of company cars and taking cash allowances instead. Based on the differences in CO_2 emissions between the company car market and all new registrations, respondents noted that these individuals are more likely to choose larger models, such as SUVs, those fuelled by petrol, or second-hand cars with greater CO_2 emissions.
- Due to the frequency of fleet replacement, the company car market is an important contributor of cars with the latest technologies to the second-hand market.
- Increased VED rates could delay fleet renewal, particularly for businesses purchasing large numbers of cars such as rental companies.
- Current technology does not allow all motorists to choose ultra low or zero emission models today. Therefore, the newest conventionally fuelled cars currently have a role to play in reducing overall CO_2 emissions.

2.22 The government recognises the importance of the company car market in incentivising individuals to choose cars with low CO_2 emissions, in addition to ultra low and zero emission models, and generating a competitive second-hand market in these vehicles. The government's analysis suggests that company cars do have – on average – lower CO_2 emissions compared to all new registrations. However, significant evidence was not provided to suggest that WLTP will cause individuals to opt-out of company cars, or that these individuals would substitute for higher emitting models in the private market.

Future proofing

2.23 Some respondents highlighted that the higher WLTP values currently being reported could, in part, be a short-term issue whilst WLTP continues to

become established. However, others emphasised that vehicle tax changes are regularly introduced as CO_2 emissions improve over time and that does not negate the need to introduce a WLTP adjustment, ahead of these improvements.

Scope of vehicle tax changes

2.24 A wide range of views were provided regarding the approach to introducing a vehicle tax change. Most respondents put forward the case that VED and company car tax rates or bands should be adjusted to protect consumers from an increased tax burden. However, some noted that no changes should be made, or the environmental incentives strengthened further, by increasing rates for conventionally fuelled cars.

2.25 It was emphasised that, although the testing regime has changed, the real-world CO_2 emissions of these cars remains identical. Many respondents were of the view that a change exogenous to the vehicle tax system itself should not alter an individual or businesses' tax liability.

2.26 A number of responses made reference to the WLTP Regulations and whether these directed EU member states to adjust vehicle tax systems to minimise changes to consumer costs. The WLTP Regulations ensure EU member states are implementing the test procedure consistently but do not make reference to vehicle taxation. The European Commission have been clear that it is for member states to decide when and how to adjust national vehicle taxation[3].

2.27 Respondents noted that the 20-25% difference between NEDC and WLTP represented an average. However, some manufacturers are not impacted to this extent and would not seek such an adjustment. Equally, manufacturers facing increases in WLTP values of up to 40% sought a much greater tax change. It was therefore noted that any single adjustment could advantage or disadvantage one model or manufacturer over another, and create winners and losers compared to the current system.

2.28 On VED, most respondents who supported a reduction felt that any adjustment should be made to the CO_2-based bands, rather than the VED rates. Respondents advocating this approach noted that not all new cars would pay an equal amount of VED as today, but argued this represented the simplest approach to neutralise the WLTP impact in the absence of fundamental reform.

2.29 For company cars, most respondents supported a reduction in rates equal to the increased revenue forecast resulting from the introduction of WLTP, or focussing the adjustment on smaller cars where the greatest WLTP impact exists to maintain the environmental incentives.

2.30 In addition, respondents noted that any change to company car tax rates would require the introduction of a different rates table for cars first registered from 6 April 2020, and before this date which would continue to pay tax based on NEDC values. The most favoured approach for these company cars involved freezing their rates at the current levels. A small

[3] https://ec.europa.eu/clima/sites/clima/files/transport/vehicles/cars/docs/faq_wltp_correlation_en.pdf

number of respondents noted the additional complexity of such an approach, particularly for employers.

2.31 Conversely, several groups put forward the case that WLTP represented an opportunity to adjust tax rates to create stronger incentives to purchase zero and ultra low emission models. For example, by introducing a link to CO_2 emissions in VED beyond first registration and raising the highest VED bands to avoid potential clustering of cars in upper bands once WLTP has been introduced. One respondent noted that:

"The Treasury [should] consider increasing taxes on more polluting vehicles. However, in the event that the government does not choose to take this path, they should at least maintain the current taxation on vehicle emissions"

2.32 The impact of reducing VED revenue on the National Roads Fund was highlighted as a challenge when considering a WLTP adjustment. One respondent noted the importance of ensuring funding for the future Roads Investment Strategy 2 is secure.

2.33 Representations were made to delay the introduction of WLTP beyond April 2020 allowing time for further analysis of WLTP values and more structural changes to VED and company car tax to be introduced. Respondents noted that NEDC values could continue to be used to determine tax rates until 2021. However, other responses underlined that the current NEDC test significantly underestimates real-world CO_2 emissions so WLTP should be adopted as soon as possible.

Further issues raised

2.34 Several further issues were raised in response to the review.

Wider context for the automotive sector

2.35 Several respondents noted that the automotive sector is currently facing significant challenges, including the global trading environment, decline in diesel sales and developing technologies. It was noted that both UK new car registrations and UK production were down in 2018. Most respondents recognised that vehicle tax changes could not address many of these wider issues, but could have a role in new car sales figures and maintaining confidence in the UK market.

Certainty of future company car tax rates

2.36 Of the 159 responses submitted on behalf of a trade association, the majority emphasised that the government should announce future company car tax rates as soon as possible. It was argued that not publishing rates beyond 2020-21 is causing drivers to delay choosing a new model by extending their current contract, impacting availability of the latest technologies in the second-hand market. For example, one respondent noted that contract extensions had increased significantly in 2018. Other respondents emphasised that individuals are currently much less likely to enter into company car contracts where the total tax liability is unknown. Most respondents were looking for government to provide 2-5 years of certainty as the average fleet renewal cycle is typically 3-4 years.

Maintaining the 2% rate for zero emission company cars

2.37 The need for stability of company car tax rates for zero emission models was emphasised by a number of respondents. In particular, as a price differential between zero emission and conventionally fuelled cars will continue to exist into the 2020s, the need to offer a beneficial rate for these models was underlined.

Further reform of VED

2.38 If only simple tax changes could be delivered for April 2020, several respondents highlighted that a further review should be completed. This could assess how the VED system could fully reflect the introduction of WLTP, including a move away from the current banded structure to a more linear based system.

Other policies linked to CO_2 emissions

2.39 Although the review focussed on vehicle taxes, respondents noted the range of other policies which are linked to CO_2 emissions where a consistent approach should exist, including capital allowances, salary sacrifice schemes, the plug-in car grant, congestion charging and local parking schemes.

Chapter 3

Government response

3.1 This chapter sets out the government's response to the review.

3.2 The introduction of WLTP provides an opportunity to strengthen the link between the vehicle tax system and the true environmental impact of car purchasing decisions, allowing consumers to make more informed decisions between model variations. The government believes these improvements should be reflected in the amount of tax paid.

3.3 The vehicle tax system plays an important role in supporting our ambition for all new cars sold to be effectively zero emission by 2040 and to help achieve our legally binding climate change objectives. However, the government recognises that WLTP represents a significant change to the vehicle tax system and is aiming to support the automotive sector – and protect consumers – during the transition.

3.4 Therefore, the government has taken the following decisions:

- the existing VED rates will be maintained on introduction of WLTP from April 2020
- a call for evidence will be published later this year seeking views on moving towards a more dynamic approach to VED which recognises smaller changes in CO_2 emissions
- most appropriate percentages will be reduced by 2ppt in 2020-21 before returning to planned rates over the following two years – increasing by 1ppt in 2021-22 and 1ppt in 2022-23. This applies to company cars first registered from 6 April 2020
- all zero emission company cars will attract a reduced appropriate percentage of 0% in 2020-21, 1% in 2021-22, before returning to the planned 2% rate in 2022-23

Vehicle Excise Duty

3.5 The government has taken the decision to retain the existing VED rates following the introduction of WLTP from April 2020.

3.6 The government acknowledges that WLTP could impact the VED liability for individuals choosing a new car from April 2020. However, when assessing the impact on an individual's purchasing decision, most motorists will see tax changes which represent only a small proportion of a car's total cost of ownership. Equally, motorists could choose to adjust their purchasing decision by choosing a model with lower, or zero emissions. As a result of

adopting WLTP, the government's assessment is that individuals and businesses choosing new cars are unlikely to delay their decision or choose an older model.

3.7 As noted in Chapter 2, WLTP results in many more unique CO_2 values, mainly due to 'model specific' testing. The current VED band structure will likely result in these differences between models not being fully recognised in the VED rates paid. This could exacerbate the current 'cliff-edges' between VED bands. During the transition to zero emission technology, the government believes it continues to be important to encourage even incremental improvements in CO_2 emissions and for motorists to be incentivised to choose model variants with lower CO_2 emissions.

3.8 Therefore, a call for evidence will be published later this year seeking views on moving towards a more dynamic approach to VED which recognises smaller changes in CO_2 emissions.

Setting company car tax rates

3.9 The impact of WLTP is – on average – greatest for company cars. In part, this is due to the structure of the bands which are more sensitive to changes in CO_2 emissions, and are therefore more effective in driving the decision to choose models with lower CO_2 emissions. Whilst the government's view is that vehicle tax rates should more closely reflect the environmental impacts of driving, it is important that the transition to WLTP is managed. This approach balances the objectives of the review: to both protect consumers and help meet our climate change commitments.

3.10 Most appropriate percentages will be reduced by 2ppt in 2020-21 before returning to planned rates over the following two years – increasing by 1ppt in 2021-22 and 1ppt in 2022-23. This applies to cars which are liable to pay tax based upon a WLTP figure (those registered on or after 6 April 2020).

3.11 A small number of company cars with the greatest CO_2 emissions (170g/km and over) will continue to attract the maximum appropriate percentage of 37% during 2020-21, 2021-22 and 2022-23. Due to the range of WLTP impacts on CO_2 emissions, this approach means some conventionally fuelled cars will be liable to pay an equal amount of company car tax as today, whilst others will pay more, and a small number of models could pay less.

Table 3.A: Company car with WLTP CO_2 emissions figure of 95g/km, first registered from 6 April 2020

Year	2020-21	2021-22	2022-23
Appropriate percentage	22%	23%	24%
Difference (compared to 2020-21 planned rates, ppt)	-2	-1	0

3.12 The government recognises the value of the company car market in supporting the transition to zero emission technology. This is reflected in a

higher proportion of company cars with zero emissions – compared to private registrations – and the high proportion of these that are subsequently supplied to the second-hand market after 3-4 years.

3.13 In response, an appropriate percentage of 0% will be introduced for all zero emission company cars in 2020-21 (including those registered before 6 April 2020). By providing clarity of future the appropriate percentages, businesses will have the ability to make more informed decisions about how they make the transition to zero emission fleets.

Table 3.B: Company car with CO_2 emissions figure of 0g/km

Year	2020-21	2021-22	2022-23
Appropriate percentage	0%	1%	2%
Difference (compared to 2020-21 planned rates, ppt)	-2	-1	0

3.14 Apart from zero emission models, the tax treatment for cars registered before 6 April 2020 will not change during 2020-21. These rates will be frozen at the 2020-21 level for 2021-22 and 2022-23.

Table 3.C: Company car with NEDC emissions figure of 95g/km, first registered before 6 April 2020

Year	2020-21	2021-22	2022-23
Appropriate percentage	24%	24%	24%
Difference (compared to 2020-21 planned rates, ppt)	0	0	0

3.15 A full table of company car tax appropriate percentages for 2020-21, 2021-22 and 2022-23 is set out in the annex.

3.16 Appropriate percentages beyond 2022-23 remain under review and will be announced at future fiscal events. The government aims to announce appropriate percentages at least two years ahead of implementation to provide certainty for employers, employees and fleet operators.

Implementation

3.17 As announced at Autumn Budget 2017, cars registered from April 2020 will be taxed based on WLTP figures. The government will bring forward legislation to implement these changes from April 2020.

3.18 Legislation will be introduced in the next Finance Bill to amend the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) to introduce the changes to

company car tax appropriate percentages for 2020-21, 2021-22 and 2022-23.

3.19 ITEPA 2003 and the Vehicle Excise and Registration Act 1994 and will also be amended to confirm that VED and company car tax bands will be based on WLTP figures. WLTP will be used as the applicable CO_2 figure from 1 April 2020 for VED and 6 April 2020 for company car tax.

Annex A

Company car tax rules - 2020-23

Cars first registered from 6 April 2020				
CO_2 emissions (g/km)	Electric range (miles)	Appropriate Percentage (%)		
		2020-21	2021-22	2022-23
0	N/A	0	1	2
1-50	>130	0	1	2
1-50	70-129	3	4	5
1-50	40-69	6	7	8
1-50	30-39	10	11	12
1-50	<30	12	13	14
51-54		13	14	15
55-59		14	15	16
60-64		15	16	17
65-69		16	17	18
70-74		17	18	19
75-79		18	19	20
80-84		19	20	21
85-89		20	21	22
90-94		21	22	23
95-99		22	23	24
100-104		23	24	25
105-109		24	25	26
110-114		25	26	27
115-119		26	27	28
120-124		27	28	29
125-129		28	29	30
130-134		29	30	31
135-139		30	31	32

140-144	31	32	33
145-149	32	33	34
150-154	33	34	35
155-159	34	35	36
160-164	35	36	37
165-169	36	37	37
170+	37	37	37

Cars first registered before 6 April 2020				
CO_2 emissions (g/km)	Electric range (miles)	Appropriate Percentage (%)		
		2020-21	2021-22	2022-23
0	N/A	0	1	2
1-50	>130	2	2	2
1-50	70-129	5	5	5
1-50	40-69	8	8	8
1-50	30-39	12	12	12
1-50	<30	14	14	14
51-54		15	15	15
55-59		16	16	16
60-64		17	17	17
65-69		18	18	18
70-74		19	19	19
75-79		20	20	20
80-84		21	21	21
85-89		22	22	22
90-94		23	23	23
95-99		24	24	24
100-104		25	25	25
105-109		26	26	26
110-114		27	27	27
115-119		28	28	28
120-124		29	29	29
125-129		30	30	30
130-134		31	31	31
135-139		32	32	32
140-144		33	33	33
145-149		34	34	34
150-154		35	35	35
155-159		36	36	36
160 and over		37	37	37

Annex B

List of respondents

3.20 36 responses were received directly from organisations and 159 responses were received through the British Vehicle Rental and Leasing Association. The organisations who responded directly were as follows:

ALD Automotive

Arnold Clark Finance Limited

Association of Car Fleet Operators

Cintra

Comcar.co.uk

Confederation of British Industry

Deloitte

Energy Saving Trust

Environmental Defense Fund

Fleet Audits

Fleet News

Fleetworx

Ford Motor Company

Grafton

Grosvenor Leasing

Honda

HRUX Limited

Kendall Cars

Laing O'Rourke

Lex Autolease

Low Carbon Vehicle Partnership

National Franchised Dealers Association

National Grid

Nissan

PSA Group

RAC

Royal Mail

The AA

The British Vehicle Rental and Leasing Association

The Institute of Chartered Accountants in England and

Wales The Society of Motor Manufacturers and Traders

Tesla

Transport for London

Tusker

Transport & Environment

World Wildlife Fund-UK

Zenith

HM Treasury contacts

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If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gov.uk