HM Revenue & Customs

Income tax: company car tax rates 2016-17

Who is likely to be affected?

Businesses and employers where company cars are made available for private use.

General description of the measure

For 2016-17, the measure increases the appropriate percentages to be used when calculating the company car benefit charge by two percentage points but does not change the maximum appropriate percentage. The rates start at 7 per cent for cars emitting 0-50 grams of CO_2 per kilometre to a maximum of 37 per cent for cars emitting 200 grams of CO_2 per kilometre or more. This measure also repeals the diesel supplement; and increases the appropriate percentages for cars registered before 1 January 1998 and for cars without a CO_2 emissions figure.

Policy objective

The measure ensures that tax on the benefit of a company car made available for private use continues to incentivise the purchase and manufacture of ultra low emission vehicles (ULEVs) and supports the sustainability of the public finances. In addition, new European standards which come into force in September 2015 require diesel cars to have the same air quality emissions as petrol cars. This measure therefore also repeals the diesel supplement.

Background to the measure

The Government announced at Budget 2012 and 2013 provisional company car tax rates and bands for 2016-17. Changes to the taxation of company cars were announced three years in advance, to give certainty to industry including car manufacturers. Finance Bill 2014 introduces the appropriate percentage rates for 2016-17.

This Tax Information and Impact Note (TIIN) is an update to the TIINs published on 21 March 2012 and 20 March 2013.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2016 for the tax year 2016-17 and subsequent tax years.

Current law

Sections 121 to 148 of the Income Tax (Earnings & Pensions) Act 2003 (ITEPA) provide for calculating the cash equivalent of the benefit of a company car which is made available for private use. In broad terms, this depends on the list price of the car multiplied by the appropriate percentage which is determined by the level of CO_2 emissions the car produces.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to make the following changes:

- Section 139 of ITEPA sets out the basis for calculating the appropriate percentage for cars with CO_2 emissions. From 6 April 2016, the graduated table of bands for taxing the benefit of a company car will provide for a two percentage point increase for each band, but with no change to the maximum appropriate percentage. The rates start at 7 per cent for cars emitting 0-50 grams of CO_2 per kilometre to a maximum of 37 per cent for cars emitting 200 grams of CO_2 per kilometre or more.
- Section 140 ITEPA sets out the basis for calculating the appropriate percentage for cars without CO_2 emissions. From 6 April 2016, the appropriate percentage for cars which have an internal combustion engine with a cylinder capacity of 1,400 or less will be 16 per cent and 27 per cent for a cylinder capacity of 1,401 to 2,000;
- The 3 percentage point diesel supplement set out in section 141 ITEPA will be repealed, so that diesel cars will be subject to the same level of tax as petrol cars; and
- Section 142 ITEPA 2003 sets out the basis for calculating the appropriate percentage for cars registered before 1 January 1998. From 6 April 2016, the appropriate percentage for cars which have an internal combustion engine with a cylinder capacity of 1,400 or less will be 16 per cent; 27 per cent for a cylinder capacity of 1,401 to 2,000 and 37 per cent for a cylinder capacity of 2,001 or more.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	-	-	negligible	negligible	negligible
	The changes to section 140 and section 142 ITEPA 2003 are expected to have a negligible impact on the Exchequer. The costings for the changes to section 139 and section 141 ITEPA 2003 were part of the company car tax costings set out in Table 2.1 of Budget 2012 and Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings documents published alongside Budget 2012 and Budget 2013.					
Economic impact	This measure incentivises businesses to purchase ULEVs, by setting lower tax rates for ULEVs than conventionally fuelled company cars. This supports ULEV manufacturers and the wider market in the UK which is at an early stage of development. The tax changes will continue to provide stability and certainty in the company car market.					
Impact on individuals and households	The changes apply equally to all company car drivers. They are not expected to have any adverse impact on the equality of groups with protected characteristics. The measure results in a basic rate taxpayer driving a zero emission car with a list price of approximately £27,500 paying £375 less on their car benefit charge in 2016-17, than a basic rate taxpayer with a conventionally fuelled car that emits between 115-119 CO_2g/km with a list price of approximately £19,000. A higher rate taxpayer would pay £750 less in 2016-17.					

Equalities impacts	Over 90 per cent of individuals receiving company cars have incomes above the UK median income for taxpayers, and around 60 per cent are higher or additional rate taxpayers.
Impact on business including civil society organisations	The measure is expected to have a negligible impact on businesses and civil society organisations as the level of employer National Insurance contributions (NICs) on the benefit will increase slightly. However, businesses that offer ULEV company cars will benefit from lower NICs liabilities compared to conventionally fuelled cars. In addition, employer reporting and administration requirements will not change as a result of this measure.
Operational impact (£m) (HMRC)	It is not anticipated that implementing this measure will incur any significant costs for HM Revenue & Customs.
Other impacts	<u>Carbon emissions and wider environmental impact:</u> This measure supports the Government's objectives to reduce greenhouse gas emissions from road transport by setting lower car benefit rates for ULEVs than conventionally fuelled vehicles. This measure therefore encourages businesses to purchase ULEVs. However, given that the market is at an early stage of development it is not possible to precisely estimate the impact on ULEV sales. Other impacts have been considered and none have been identified.

Monitoring and evaluation

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

Further advice

If you have any questions about this change, please contact the Employment Income Policy team at employmentincome.policy@hmrc.gsi.gov.uk.

1 Cars: the appropriate percentage

(1) Chapter 6 of Part 3 of ITEPA 2003 (taxable benefits: cars, vans and related benefits) is amended as follows.

(2) In section 133 (how to determine the appropriate percentage), in subsection (2)—

(a) at the end of paragraph (a) insert “or”,

(b) omit paragraph (c) and the “or” before it, and

(c) for “to 141” substitute “and 140”.

(3) Section 139 (cars with a $C0_2$ figure: the appropriate percentage) is amended in accordance with subsections (4) to (6).

(4) In subsection (2) —

(a) in paragraph (a) for “5%” substitute “7%”,

(b) in paragraph (aa) for “9%” substitute “11%”, and

(c) in paragraph (b) for “13%” substitute “15%”.

(5) In subsection (3), for “14%” substitute “16%”.

(6) In subsection (7), omit paragraph (a) and the “and” after it.

(7) Section 140 (cars without a $C0_2$ figure: the appropriate percentage) is amended in accordance with subsections (8) to (10).

(8) In subsection (2), in the Table —

(a) for “15%” substitute “16%”, and

(b) for “25%” substitute “27%”.

(9) In subsection (3)(a), for “5%” substitute “7%”.

(10) In subsection (5), omit paragraph (a) and the “and” after it.

(11) Omit section 141 (diesel cars: the appropriate percentage).

(12) Section 142 (car first registered before 1st January 1998: the appropriate percentage) is amended in accordance with subsections (13) and (14).

(13) In subsection (2), in the Table —

(a) for “15%” substitute “16%”,

(b) for “22%” substitute “27%”, and

(c) for “32%” substitute “37%”.

(14) In subsection (3), for “32%” substitute “37%”.

(15) In section 170(4) (power to reduce value of appropriate percentage by regulations), for the words “to 141” substitute “and 140”.

(16) In consequence, section 23(4) and (5)(b) of FA 2013 is repealed.

(17) The amendments made by this section have effect for the tax year 2016-17 and subsequent tax years.

EXPLANATORY NOTE

INCOME TAX: COMPANY CARS – THE APPROPRIATE PERCENTAGE

SUMMARY

1. This clause relates to taxable benefits on company cars. With effect from 6 April 2016, it modifies the appropriate percentage bands and carbon dioxide (CO_2) emissions threshold by revising appropriate percentages, including that for the relevant threshold. It also repeals the supplementary appropriate percentage for diesel engined cars.

2. This clause also increases the appropriate percentages for cars registered before 1998 and those otherwise without a registered CO_2 emission.

DETAILS OF THE CLAUSE

3. Subsection (1) introduces changes to Chapter 6 of Part 3 of ITEPA 2003 (taxable benefits: cars, vans and related benefits). Subsection (2) amends section 133 ITEPA which sets out the legislative references for finding the appropriate percentage, and removes the reference to diesel cars to which section 141 applies (relating to the diesel supplement).

4. Subsection (3) introduces the changes to section 139 ITEPA. Subsection (4) increases the appropriate percentage for cars with a CO_2 emission figure between 0 – 50 grams per kilometre (g/km) from 5 per cent to 7 per cent; for 51 – 75 g/km from 9 per cent to 11 per cent and for 76 – 94 g/km from 13 per cent to 15 per cent. Subsection (5) increases the appropriate percentage of the relevant threshold from 14 per cent to 16 per cent. Subsection (6) removes the reference to diesel cars in section 139(7)(a).

5. Subsection (7) introduces changes to section 140 ITEPA. Subsection (8) increases the appropriate percentage for cars without a CO_2 emissions figure so that engines with a cylinder capacity of 1,400 or less increases from 15 per cent to 16 per cent and those with a cylinder capacity of 1401-2000 increases from 25 per cent to 27 per cent. Subsection (9) increases the appropriate percentage from 5 per cent to 7 per cent for cars which are not, under any circumstances, capable of emitting CO_2 emissions when being driven. Subsection (10) removes the reference to diesel cars in section 140(5).

6. Subsection (11) repeals section 141 ITEPA 2003.

7. Subsection (12) introduces changes to section 142 ITEPA. Subsection (13) amends section 142(2). It increases the appropriate percentage for cars first registered before January 1998 with an internal combustion engine with a cylinder capacity of 1,400 or less from 15 per cent to 16 per cent; from 22 per cent to 27 per cent for cars with a cylinder capacity of 1401 – 2,000 and from 32 per cent to 37 per cent for cars with a cylinder capacity of 2001 or more.

8. Subsection (14) amends section 142(3) and provides an increase for cars without a cylinder capacity from 32 per cent to 37 per cent.

9. Subsections (15) and (16) provide for consequential amendments.

10. Subsection (17) provides that these amendments have effect for the tax year 2016-17 and subsequent tax years.

BACKGROUND NOTE

11. Section 139 ITEPA 2003 sets out the basis for calculating the appropriate percentage for cars with CO_2 emissions. The appropriate percentage multiplied by the list price of the car (adjusted for any taxable accessories) provides the level of chargeable benefit for company car tax for employees and of Class 1A NICs for employers.

12. From 6 April 2016, the graduated table of bands for taxing the benefit of a company car will provide for a two percentage point increase for each band, starting at 7 per cent for cars emitting 0-50 grams of CO_2 per kilometre to a maximum of 37 per cent for cars emitting 200 grams of CO_2 per kilometre or more.

13. Section 140 ITEPA sets out the basis for calculating the appropriate percentage for cars without CO_2 emissions and all but the higher band (which was increased in section 23(8) of the Finance Act 2013) have also been increased.

14. Section 141 ITEPA 2003 sets out the diesel supplement. From 6 April 2016, the 3 percentage point diesel supplement set out in section 141 ITEPA will be repealed, so that diesel cars will be subject to the same level of tax as petrol cars.

15. Section 142 ITEPA 2003 sets out the basis for calculating the appropriate percentage for cars registered before 1 January 1998, and these have also been increased in line with other changes.

16. If you have any questions about this change, or comments on the legislation, please contact the Employment Income Policy team at employmentincome.policy@hmrc.gsi.gov.uk.