

Income tax: company car tax rates and bands for cars 2017-18 and 2018-19

Who is likely to be affected?

Businesses and employers that provide company cars and employees provided with company cars that are made available for private use.

General description of the measure

In both 2017-18 and 2018-19, the appropriate percentage of the list price of company cars subject to tax will increase by 2 percentage points for cars emitting more than 75 grammes of carbon dioxide per kilometre (g CO_2/km).

In 2017-18, there will be a 4 percentage point differential between the 0-50 and 51-75g CO_2 per km bands and between the 51-75 and 76-94g CO_2 per km bands. In 2018-19, the differential in each case will reduce to three percentage points. (The differential will reduce further to two percentage points in 2019-20 in line with the Budget 2013 announcement).

Policy objective

This measure will continue to support the wider market for ultra low emission vehicles (ULEVs) by maintaining lower taxation for ULEVs. At the same time, the increase in appropriate percentages ensures the tax system continues to support the sustainability of the public finances.

Background to the measure

The changes in the appropriate percentage for cars for 2017-18 and 2018-19 were announced at Budget 2013 and Budget 2014.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2017.

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 plus taxable accessories, multiplied by the level of CO₂ emissions the car produces, which is expressed as the appropriate percentage.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to make the following changes:

Section 139 of ITEPA sets out the basis for calculating the appropriate percentage for cars with CO₂ emissions. From 6 April 2017, the graduated table of company car tax bands will provide for a 9 per cent band for cars with emissions of 0-50g CO₂ per km, a 13 per cent band for cars with emissions of 51-75g CO₂ per km, a 17 per cent band for other low emission cars (76g-94g CO₂ per km); and a 2 per cent increase for each rise in emissions of 5g CO₂ per kg from 95g CO₂ to the existing maximum of 37 per cent.

From 6 April 2018, there will be a 13 per cent band for cars with emissions of 0-50g CO_2 per km, a 16 per cent band for cars with emissions of 51-75g CO_2 per km, a 19 per cent band for other low emission cars (76g-94g CO_2 per km); and a 2 per cent increase for each rise in emissions of 5g CO_2 per km from 95g CO_2 to the existing maximum of 37 per cent.

• Section 140 ITEPA sets out the basis for calculating the appropriate percentage for cars without a CO₂ emissions figure. From 6 April 2017, the appropriate percentage for the lowest band (cars with a cylinder capacity of up 1,400cc) will be set at 18 per cent; the appropriate percentage for cars in the medium band (cars with a cylinder capacity greater than 1,400cc but no more than 2,000cc) will be set at 29 per cent; and the appropriate percentage for cars with a cylinder capacity greater than 2,000cc will remain at 37 per cent.

From 6 April 2018, the appropriate percentage for the lowest band (cars with a cylinder capacity of up 1,400cc) will be set at 20 per cent; the appropriate percentage for cars in the medium band (cars with a cylinder capacity greater than 1,400cc but no more than 2,000cc) will be set at 31 per cent; and the appropriate percentage for cars with a cylinder capacity greater than 2,000cc will remain at 37 per cent.

- Section 141 sets out the appropriate percentage for diesel cars registered on or after 1 January 1998. From 6 April 2015, the maximum percentage for diesel cars will be set at 37 per cent. Section 141 is being repealed with effect from 6 April 2016.
- Section 142 sets out the appropriate percentage for cars first registered before 1 January 1998. From 6 April 2017, the appropriate percentage for the lowest band (cars with a cylinder capacity of up 1,400cc) will be set at 18 per cent; the appropriate percentage for cars in the medium band (cars with a cylinder capacity greater than 1,400cc but no more than 2,000 cc) will be set at 29 per cent; and the appropriate percentage for cars with a cylinder capacity greater than 2,000cc will remain at 37 per cent.

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A table of rates can be found in the 'Overview of Tax Legislation and Rates' document that will be published alongside the Budget in 2014.

The measure will also set the maximum percentage for diesel cars at 37 per cent for 2015-16. This was included in the Tax Information and Impact Note published on 20 March 2013.

Summary of impacts

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Exchequer	2014-15	2015-16	2016-17	2017-18	2018-19	
impact (£m)	-	-	-	+240	+480	
	These figures were set out in Table 2.1 of Budget 2014 and have certified by the Office for Budget Responsibility. More details can be in the policy costings document published alongside Budget 2014.					
Economic impact	By maintaining lower taxation for ULEVs, the measure will support the take-up and development of ULEVs in the UK.					
Impact on individuals, households	This measure will have an impact on employees provided with a company car which is also made available for private use. Those impacted will largely have above average incomes.					
and families	The measure is not expected to impact on family formation, stability or breakdown.					
Equalities impacts	The changes apply equally to all employers providing a company car and employees who drive them. There are no particular impacts on people with protected characteristics.					
Impact on business including civil	This measure is expected to have no impact on business or civil society organisation in terms of administrative and one-off costs.					
society organisations		Businesses that offer company cars to their employees will benefit from lower NIC liabilities on ULEVs compared to a non-ULEV.				
Operational impact (£m) (HMRC or other)	Routine IT and guidance changes required for HM Revenue and Customs.					
Other impacts	Other impacts have been considered and none has 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 Alastair Dougans on 03000 584745 (email: employmentincome.policy@hmrc.gsi.gov.uk).