Explanatory Note

Clause 7: Diesel cars: the appropriate percentage

Summary

1. This legislation has the effect of retaining the diesel supplement of 3 percentage points that was to be abolished with effect from 6 April 2016. The decision to retain the diesel supplement was announced at Autumn Statement 2015 and will be legislated in Finance Bill 2016. The provisions of the clause amend section 24 of the Finance Act 2014 so that section 141 of the Income Tax (Earnings and Pensions) Act (ITEPA) 2003 continues to apply for 2016 to 2017 and subsequent tax years. Section 141 ITEPA provides that the appropriate percentage for diesel cars is calculated by adding an additional 3 percentage points to what would otherwise be the appropriate percentage, up to an overall maximum of 37%.

Details of the clause

2. Subsection (1) repeals various subsections of section 24 of the Finance Act 2014. These would have repealed section 141 in its entirety and removed all references to that section from other provisions relating to the computation of the cash equivalent of the car benefit charge. The effect is that section 141 will continue to apply and will not be repealed from 6 April 2016.

3. Subsection (2) explains that those sections which would have been amended or omitted by section 24 of the Finance Act 2014 are in effect unchanged for the tax years 2016 to 2017 and subsequent tax years.

Background note

4. Section 139 ITEPA sets out the basis for calculating the appropriate percentage for cars with CO2 emissions registered on or after 1 January 1998. A chargeable car benefit arises when an employee is provided by an employer with a car that they can use for their private journeys. For most employees, the cash equivalent of the benefit is calculated by multiplying the appropriate percentage (set by the level of CO2 emissions of the car) by the list price of the car (including VAT and accessories). The cash equivalent of the benefit is treated as earnings of the employee's employment and is subject to income tax at the employee's marginal rate of tax. In addition, employers will pay Class 1A National Insurance contributions. The appropriate percentage for diesel cars ranges from 8% in 2015 to 2016, but this will increase to 10% from 6 April 2016 for 2016 to 2017 to a maximum appropriate percentage of 37%.

5. Section 140 ITEPA provides an appropriate percentage for those cars which do not have a CO2 emissions figure and is based on the engine capacity of the car.

6. Section 141 ITEPA sets out the steps for calculating the appropriate percentage for diesel cars.

It provides that for diesel cars, a supplement of 3 percentage points is added to the appropriate percentage calculated by reference to section 139 or 140 up to a maximum.

7. The government announced at Budget 2012 that the diesel supplement would be abolished in April 2016. This was legislated for in the Finance Act 2014.

8. At Autumn Statement 2015, the government announced the diesel supplement was to be retained until the point at which new EU-wide testing procedures come into effect. These procedures aim to ensure that diesel cars meet NO2 and other air quality standards even under strict real world driving conditions. Further provisions to remove the diesel supplement, to take effect from 6 April 2021, are currently expected to be made in a future Finance Bill.

9. If you have any questions about this change, or comments on the draft legislation, please contact the Employment Income team on 03000 521589 (email: employmentincome.policy@hmrc.gsi.gov.uk).