



Income tax: company cars and vans: repeal of section 114(3) Income Tax (Earnings and Pensions) Act 2003

Who is likely to be affected?

Employers and individuals where a company car is made available for private use or a van is made available for more than insignificant private use.

General description of the measure

This measure will repeal section 114(3) Income Tax (Earnings and Pensions) Act (ITEPA) 2003, to ensure that the benefit of company cars or vans is taxed in full.

Policy objective

This measure protects Exchequer revenue by ensuring that the benefit rules are applied in full.

Background to the measure

Section 114(3) ITEPA 2003 provides protection from double taxation, but in certain circumstances (i.e. where the benefit can be converted into money's worth) disapplies the benefit from being taxed under the appropriate rules for company cars and vans. This was not the policy intention, and as there are other sections within the legislation that prevent double taxation, this section is being repealed.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2014.

Current law

Section 114(3) ITEPA 2003 states that Chapter 6 of Part 3 of ITEPA 2003 (Taxable Benefits: Cars, Vans and related benefits) does not apply if the provision of a company car or van constitutes earnings from employment under any other provision. Therefore, in broad terms, section 114(3) ITEPA 2003 gives priority to the earnings provision at section 62 ITEPA 2003 and prevents a double tax charge if a monetary value is established for the car or van benefit under section 62 ITEPA 2003.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to repeal section 114(3) ITEPA 2003. This will allow HM Revenue & Customs to rely on the provision at section 64 ITEPA 2003 which ensures that the full amount of car or van benefit is subject to tax if an amount could be both earnings under section 62 ITEPA 2003 and treated as earnings under the benefits code. Section 64 ITEPA 2003 also removes any consequential issues with the double taxation of a car or van benefit.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.					
	The measure supports the Exchequer in its commitment to protect revenue.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	The measure is expected to have negligible impact on individuals and households on the basis that most employers are currently reporting the full value of the benefit. Existing reporting requirements will not change.					
Equalities impact	This measure is not expected to have any adverse impacts on the equality of groups with protected characteristics.					
Impact on business including civil society organisations	This measure is expected to have negligible impact on businesses or civil society organisations on the basis that most employers are currently reporting the full value of the benefit. Employer reporting and administration requirements would not change.					
Operational impact (£m) (HMRC or other)	This measure will have no changes to existing operational reporting requirements.					
Other impacts	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 Taxable benefits: cars, vans and related benefits

- (1) In section 114 of ITEPA 2003 (cars, vans and related benefits), omit subsection (3) (which prevents a charge by virtue of Chapter 6 of Part 3 of that Act where an amount constitutes earnings by virtue of any other provision).
- (2) The amendment made by this section has effect for the tax year 2014-15 and subsequent tax years.

EXPLANATORY NOTE

**INCOME TAX: COMPANY CARS AND VANS – REPEAL OF SECTION 114(3)
INCOME TAX (EARNINGS AND PENSIONS) ACT (ITEPA) 2003**

SUMMARY

1. Clause X relates to taxable benefits on company cars and vans. It will repeal section 114(3) ITEPA 2003 to ensure that the full amount of car or van benefit is subject to tax with effect from 6 April 2014

DETAILS OF THE CLAUSE

2. Subsection 1 removes section 114(3) ITEPA 2003, which will ensure that the cash equivalent of the benefit for a car or van made available for private use will still be treated as earnings from the employment even if it would also fall to be earnings by virtue of any other provision.

BACKGROUND NOTE

3. Section 114(3) ITEPA 2003 provides that Chapter 6 of Part 3 of ITEPA 2003 (Taxable Benefits: Cars, Vans and related benefits) does not apply if the cash equivalent of the benefit of a company car or van made available for private use constitutes earnings from the employment by virtue of any other provision. This could allow an individual to pay less tax on their car or van benefit than the Government originally intended and have a negative impact on Exchequer revenue.

4. From 6 April 2014, section 114(3) ITEPA 2003 will be repealed for the tax year 2014-15 and subsequent tax years. This supports the Government's policy of the full amount of car or van benefit being subject to tax and protects Exchequer revenue. Protection from double taxation is already provided by other provisions in the Act.

5. 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.