



Income tax: company cars and vans: payments for private use of a company car or van

Who is likely to be affected?

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

General description of the measure

The measure will amend sections 144(1) and 158(1) of the Income Tax (Earnings and Pensions) Act (ITEPA) 2003 to ensure that any payments required by the employer as a contribution for private use of a car or van need to be made before the end of the tax year in which the private use was undertaken. Such private use payments can reduce the cash equivalent of the benefit.

Policy objective

This measure protects Exchequer revenue by ensuring that a car or van benefit is chargeable in full if contributions required for private use are not made before the end of the tax year in which private use was undertaken.

Background to the measure

Finance Act 1976 introduced legislation on company cars being made available for private use and included a provision for reducing the tax liability on a car benefit if an individual made payments as a condition of the car being made available for private use. This provision was consolidated in the Income and Corporation Taxes Act (ICTA) 1988 and in ITEPA 2003.

Finance Act 1993 introduced legislation concerning company vans made available for private use, which also included a provision for reducing the tax liability on a benefit if an individual made payments as a condition of the van being made available for private use. These provisions were included in ICTA 1988 and then consolidated in ITEPA 2003.

Detailed proposal

Operative date

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

Current law

Under section 144(1) ITEPA 2003, an employee can reduce their tax liability on a car benefit if they make payments for private use of the car as a condition of that car being available for private use.

Section 158(1) ITEPA 2003 provides for a similar tax liability reduction if payments for private use of a company van are made by the employee.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend sections 144(1) and 158(1) ITEPA 2003 putting beyond doubt that payments for private use of a company car or van need to be made in the tax year in which private use was undertaken. The current wording of the legislation does not achieve the policy intention.

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 no impact on most individuals and households. Where an employer has been reporting the value of the benefit incorrectly, some individuals will no longer have the benefit charge deferred to a later year. Existing reporting requirements will be clarified as a result of the 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 no impact on most businesses or civil society organisations. Where an employer has been reporting the value of the benefit incorrectly, they will no longer have employer National Insurance contributions deferred to a later year. Employer reporting and administration requirements will be clarified as a result of the change.					
Operational impact (£m) (HMRC or other)	The measure is not expected to have any operational impact.					
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 Cars and vans: payments for private use

- (1) In section 144 of ITEPA 2003 (deduction for payments for private use: cars), for subsection (1)(b) substitute –
 “(b) pays that amount in that year.”
- (2) In section 158 of that Act (reduction for payments for private use: vans), for subsection (1)(b) substitute –
 “(b) pays that amount in that year.”
- (3) The amendments made by this section have effect for the tax year 2014-15 and subsequent tax years.

EXPLANATORY NOTE

INCOME TAX – COMPANY CARS AND VANS – PAYMENTS FOR PRIVATE USE OF A COMPANY CAR AND VAN

SUMMARY

1. This clause relates to taxable benefits on company cars and vans. With effect from 6 April 2014, any payment which an employee is required to make for the private use of a car or van needs to be made before the end of the tax year in which the private use was undertaken. Such private use payments can reduce the employee's tax liability on a car or van benefit.

DETAILS OF THE CLAUSE

2. Subsection (1) amends section 144 (1)(b) of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) to provide for a reduction in the cash equivalent of the benefit of a car if, in a tax year, an employee pays in full the contributions required as a condition of that car being available for private use in that year.

3. Subsection (2) amends section 158 (1)(b) ITEPA 2003 to provide for a reduction in the cash equivalent of the benefit of a van if, in a tax year, an employee pays in full, the contributions required as a condition of that van being available for private use in that year.

4. Subsection (3) provides that these amendments have effect for the tax year 2014-15 and subsequent tax years.

BACKGROUND NOTE

5. This clause aligns the legislation with the Government's policy intention that any private use payment needs to be made in the tax year in which private use was undertaken. This clause also ensures that if appropriate the full amount of tax is payable on a car or van benefit.

6. Section 144(1) ITEPA 2003 provides for an employee to reduce their tax liability on a car benefit if the employee makes payment for private use of the car.

7. Section 158(1) ITEPA 2003 provides for a similar tax liability reduction if payment for private use of a company van is made by an employee.

8. From 6 April 2014, sections 144(1) and 158(1) ITEPA 2003 will be amended to provide for a reduction in an employee's tax liability on a company car or van benefit only if

payments for private use of a company car or van are made in the tax year in which the private use was undertaken.

9. 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.