



HM Treasury

Company car tax for ultra-low emission cars:

summary of responses

December 2016



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1 Introduction

Background

1.1 The government is committed to delivering on its climate change and air quality targets. Part of this strategy is to increase the use of ultra-low emission vehicles (ULEVs), to support mobility while reducing the carbon and air quality impact of road transport. Since 2011, the government has committed over £2 billion to increase ULEV uptake, green transport initiatives and supporting local authorities to take action to improve air quality. At Autumn Statement 2016 the government announced additional support to accelerate the transition to ultra-low emission vehicles including £150 million to create a cleaner bus and taxi fleet, £80 million to increase charging infrastructure and £40 million of additional support for the Plug-in Car Grant.

1.2 At Budget 2016, the government announced that it would consult on refining the bands for ULEVs in the company car tax scheme to refocus incentives on the cleanest cars using the latest technologies.

1.3 A public consultation named 'Company car tax for ultra-low emission cars' was launched on 10 August and closed on 20 October 2016. The government received 42 formal responses to the consultation from 6 individuals and 36 interested organisations. A list of organisations who responded is provided in Annex A.

1.4 This document summarises the responses received and sets out the government's decisions on how to proceed. The government is grateful to all those who contributed their views during the consultation process. Prior to and during the consultation, officials engaged in a number of discussions with stakeholders in order to supplement their written responses. The government also thanks participants for this constructive and valuable engagement.

Aim of the consultation

1.5 The government has already legislated company car tax rates and bands until 2019-20. A number of stakeholders have pointed out that the current ULEV bands are too broad, and do not distinguish between different types of ULEVs such as Battery Electric Vehicles (BEVs), which produce no carbon emissions from others such as Plug-in range extender Hybrid Vehicles (PHEVs), which may produce some emissions. Stakeholders also suggested that the 2019-20 'appropriate percentages' do not provide sufficiently strong incentives for drivers to choose ULEVs, which may have higher list prices than conventionally-powered vehicles.

1.6 The government recognises these comments, and therefore decided to consult on changes to ULEV bands in company car tax into the next decade, in order to ensure that the system continues to give the right signals to drivers and fleet managers.

1.7 The purpose of the consultation was to ascertain whether there was stakeholder consensus that new bands would be needed for cars producing less than 75g CO₂/km, and to obtain views on the design and structure of new ULEV bands in 2020-21 and beyond.

1.8 The consultation document set out broad options for the design and structure of new ULEV bands to seek views on the most effective way of distinguishing between different types of ULEVs as technologies develop into the next decade. During this period, the government expects rapid innovation will deliver significant changes in the way motor vehicles are powered. The government's aim is to ensure the very best in class of these cars continue to be incentivised.

1.9 Chapter 2 of this document summarises the responses received to the questions set in the consultation document. Chapter 3 outlines the government response to the consultation.

2 Summary of responses

2.1 This chapter summarises the main points raised in response to the consultation questions. The government's response is set out in Chapter 3.

Refining ULEV bands beyond 2020

2.2 The consultation document asked respondents for their views on refining ULEV bands beyond 2020 to sharpen incentives for the cleanest cars using the latest technologies.

Question 1

Do you agree that company car tax bands should be refined from 2020-21 onwards in order to provide stronger incentives for ULEVs?

2.3 There was a clear consensus among respondents in favour of refining ULEV bands into the next decade. Many respondents commented that ongoing support and stronger incentives will maximise take-up of the lowest emission vehicles as well as encourage improvements in new vehicle technologies. Many also called for ULEV 'appropriate percentages' to be reduced significantly in comparison to 2019-20 rates.

The design of new ULEV bands

2.4 The consultation document asked respondents for their views on the design of the new ULEV bands. The consultation document set out the option of basing new ULEV bands solely on CO₂ emissions like all the other bands in the CCT structure or, alternatively, distinguishing bands based on the 'zero emission miles' capability of the car as well as its CO₂ emissions. Zero emission miles is the maximum distance a car can be driven in pure electric mode without recharging the battery or using the combustion engine of the plug-in vehicle.

2.5 Continuing to base the bands on CO₂ would preserve the simplicity of the current system. Introducing zero emission miles capability could provide different incentives for future vehicles with bigger and better batteries, which would permit most day-to-day journeys to be zero emission. The consultation document also welcomed other suggestions from respondents for the design of new bands.

Question 2

Should CO₂ emissions only be used as the basis for new ULEV bands in the company car tax structure from 2020-21 onwards

Question 3

If the new ULEV bands should not be based solely on CO₂ emissions what additional factor should new ULEV bands in company car tax be based on? Zero emission miles? Other?

2.6 There was a clear consensus among respondents that CO₂ emissions should continue to form the basis for most CCT bands. However, the majority of respondents, including individuals, car manufacturers and lease companies, favoured moving to a system that was not based solely on CO₂ emissions for ULEV bands, but also recognised other factors as well. Amongst those who favoured including a secondary factor, there was a clear consensus that the zero emission miles capability of the vehicle should be the additional factor used.

2.7 Many respondents thought that basing bands on the zero emissions miles capability of the car was an easily-understood and verifiable metric that would allow customers to identify poor versus good performing vehicles easily. They commented that it would be a better guide to assess the suitability of different vehicles for individual customer's driving needs. By clearly identifying the electric only range of the car, customers mainly driving longer distances could easily choose a suitable car with a longer zero emission range. Respondents also thought that it would incentivise manufacturers to increase pure electric range capabilities.

2.8 Respondents who wanted new ULEV bands to be based solely on CO₂ emissions raised concerns that introducing an additional factor could detract from the clarity and simplicity of the current system and make it more difficult for customers to understand. Some pointed out that more granular CO₂ banding could be used as a simple proxy for zero emission range anyway.

2.9 Many respondents believed that zero emission vehicles should have a band of their own in order to effectively support the transition to fully electric vehicles. Many also felt that these vehicle should receive the most preferential tax rates.

2.10 Some respondents believed that in order to best fulfil the stated objectives of the consultation, to strengthen incentives for the uptake of the cleanest cars using the latest technologies, an earlier effective date for introducing the new bands and rates should be implemented.

The structure of new ULEV bands

2.11 The consultation document asked respondents for their views on the structure of the new bands. The consultation document set out options for a narrower, continuous banding structure (i.e. similar to the rest of the company car tax structure) or fewer, wider bands. In addition, the consultation document asked for views on how many wider bands there should be and where the breakpoints between bands should fall.

Question 4

If new ULEV bands were introduced, should these be charged on the basis of continuous narrower bands (e.g. X appropriate percentage per 5 grams of CO₂ per km), or should there be fewer wider emission rate bands? Continuous narrower? Wider, banded?

Question 5

If there should be fewer, wider bands, how many should there be and where should the breakpoints between the bands be?

2.12 The majority of respondents supported a more continuous, narrower banding structure. Respondents cited several benefits including providing more of an incentive for consumers to choose lower emitting cars and for manufacturers to improve environmental performance.

2.13 Most car manufacturers strongly supported this option believing that 'cliff edges' created by smaller numbers of wider bands could lead to unfairness – as two models of a similarly specified car could fall on either side of a band boundary. They might be close in environmental performance but attract very different tax rates.

2.14 Respondents favouring fewer, wider bands were mixed on their views on how many bands there should be. There was a low response rate for question 5. However, some of those who responded believed introducing multiple bands to distinguish plug-in and range extender vehicles (PHEVs) was unnecessary if the gCO₂/km threshold used to define PHEVs became more stringent over time.

2.15 Some respondents were in favour of wider bands only below 50 gCO₂/km (around 3 to 5 bands) whilst bands above 50 gCO₂/km should be continuous narrower bands merging with the rest of the company car tax structure.

2.16 In addition, the consultation document asked for views on how many zero emission miles bands there should be and where the breakpoints between bands should fall.

Question 6

If zero emission miles should be used as well as CO₂ emissions as the basis for new ULEV bands, how many zero emission miles bands should there be and where should the breakpoints between the bands fall?

2.17 Respondents had mixed views on the number of zero emission bands there should be. However most respondents broadly agreed that between 3 to 5 bands should be created and that the new bands should be introduced below 50 gCO₂/km.

2.18 Most respondents cited a lower threshold of around 30-50 zero emission miles and an upper threshold of around 100-150 zero emission miles. A few respondents cited much higher upper thresholds of around 400 zero emission miles capability.

Other options

2.19 A small number of respondents suggested that Nitrogen Dioxide (NO₂) or other air pollutant emissions should be used as the additional factor to base new ULEV bands on instead of zero emission miles capability.

2.20 The ULEV category is defined by vehicles which emit nil or extremely low levels of both air pollutants (including NO₂) and carbon emissions due to partial or full electrification, compared to their combustion engine counterparts fuelled by petrol or diesel. The company car tax system includes a 3 percentage point supplement for diesel cars. This was retained at Autumn Statement 2015 and will now stay in place until at least 2020-21, which is when all new vehicles must meet air quality standards even under strict real world driving conditions.

3 Government response

3.1 This chapter sets out the government's response to the consultation and its next steps in updating the ULEV bands in company car tax from 2020-21 onwards.

3.2 The key decisions that the government has taken are to:

- introduce a separate zero emission band
- introduce 5 new bands in the 1 to 50 gCO₂/km range based on the zero emission miles capability of the vehicle. The new bands are: less than 30 zero emission miles capability; 31 to 39 miles; 40 to 69 miles; 70 to 129 miles; greater than 130 miles¹
- introduce new bands in the 51 to 94 gCO₂/km range in 5 gCO₂/km steps (apart from the 51-54 gCO₂/km band)
- decrease the 'appropriate percentage' for all new bands below 70 gCO₂/km in comparison to 2019-20 rates
- retain all existing bands above 95 gCO₂/km up to a maximum of 37% as well as the 3% diesel supplement. The 'appropriate percentage' will be raised by 1 percentage point on all bands above 90 gCO₂/km in comparison to 2019-20 rates
- legislate for the new bands and rates at Finance Bill 2017. Draft legislation will be published on 5 December 2016

New ULEV bands to strengthen incentives for the cleanest cars into the 2020s

3.3 The government welcomes respondents' support for change to the ULEV bands in company car tax in order to provide stronger incentives for ULEVs into the next decade. There was very strong support for the need to create new bands and rates to incentivise the cleanest cars using the latest technologies. **In response the government will therefore introduce 11 new bands and lower rates for ULEVs (below 75 gCO₂/km) from 2020 onwards.** All new rates and bands are shown in Annex B.

3.4 The government is committed to delivering on its climate change and air quality targets. Incentivising ULEVs based on zero emission miles benefits both CO₂ emissions reduction and local air quality in urban centres. It also provides encouragement for manufacturers to move beyond vehicles with reduced CO₂ emissions but limited electric mile range, which risk being driven in internal-combustion engine mode most of the time. The government recognises and has acted upon the clear support from most respondents for a separate zero emission band to drive maximum environmental benefit.

3.5 The government will introduce **a separate band for zero emission vehicles and 5 new bands in the 1 to 50 gCO₂/km range that are based on the zero emissions miles capability of the vehicle.** This provides sharper and more consistent incentives for future vehicles with better batteries, which permit most day-to-day journeys to be zero emission.

3.6 The government recognises that the development of new ultra-low emission technologies such as battery and electric motor technologies means that more and more ULEVs will be coming to

¹ The zero emission miles capability (electric range in miles) is the number of kilometres declared for the electric range on the certificate of conformity or type approval certificate and multiplied by 0.62

market with some kind of zero emission range. Now is therefore the right time to set out plans to help drive this technological change by steering consumers and supporting manufacturers away from conventional engines and towards cars that are powered by electricity.

3.7 The government will introduce a further 5 new ULEV bands (below 75 gCO₂/km) and 4 new bands in the 75 to 94 gCO₂/km range in 5 gCO₂/km steps. The government acknowledges support from respondents for continuous, narrow bands. The new bands merge with the existing graduated framework above 94 gCO₂/km. Respondents agree that the continuous and narrow-banded structure works well to promote uptake of cleaner cars.

3.8 Respondents' strongly support reducing the 'appropriate percentage' for all ULEV bands to a lower rate than 2019-20 rates. In response the government will introduce reduced rates for all new bands below 70 gCO₂/km, where it is possible to reduced rates while still delivering a continuous taper that aligns with rates for non-ULEVs. Bands in the 1-50 gCO₂/km range will see the greatest reduction in rates compared to 2019-20 levels with zero emission vehicles and vehicles capable of being driven more than 130 miles in zero emission mode rewarded with the most preferential tax rates.

A List of respondents

A.1 There were 42 responses to the consultation. The government thanks all respondents who contributed to the consultation.

AngloAmerican

Association of Car Fleet Operators

Atlantic Tax Advisory Services Ltd

Autogas Ltd

Aylesbury Vale District Council

BCF Wessex

British Vehicle Rental and Leasing Association

Cancer Research UK

Chartered Institute of Taxation

Deloitte

Electric Vehicle Association of Scotland

General Motors

Global Fleet GPO

Hypnos Limited

IAM RoadSmart

Institute of Directors

Institute of Chartered Accountants in England and Wales

Instinctif

Jaguar Land Rover

LeasePlan UK Ltd

Lex Autolease

LowCVP

Magrathea Telecoms

Mazars LLP

Mor Hydro Ltd

Nissan

POD Point

Price Waterhouse Coopers

RAC Foundation

Severn Trent

Society of Motor Manufacturers and Traders

The Miles Consultancy

TE Connectivity

Tusker

UK LPG

Zenith

B New ULEV bands and rates

B.1 The appropriate percentages for 2019-20 together with new bands and rates for 2020-21.

CO ₂ (g/km)	2019-20
0-50	16
51-75	19
76-94	22
95-99	23
100-104	24
105-109	25
110-114	26
115-119	27
120-124	28
125-129	29
130-134	30
135-139	31
140-144	32
145-149	33
150-154	34
155-159	35
160-164	36
165 and above	37

CO ₂ (g/km)	Zero emission mileage ¹	2020-21
0		2
1-50	>130	2
1-50	70-129	5
1-50	40-69	8
1-50	30-39	12
1-50	<30	14
51-54		15
55-59		16
60-64		17
65-69		18
70-74		19
75-79		20
80-84		21
85-89		22
90-94		23
95-99		24
100-104		25
105-109		26
110-114		27
115-119		28
120-124		29
125-129		30
130-134		31
135-139		32
140-144		33
145-149		34
150-154		35
155-159		36
160 and above		37

¹ Zero emission mileage is the number of kilometres declared for the electric range on the certificate of conformity or type approval certificate and multiplied by 0.62.

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