# TAXREP 14/99

# COMPANY CAR SCHEME CHANGES

***A Memorandum submitted to the Inland Revenue in May 1999 in response to a request for comments from the Inland Revenue. This was contained in Budget Day Press Release IR4 issued in March 1999.***

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## COMPANY CAR SCHEME CHANGES

### Introduction

1. We welcome this opportunity to reply to the Inland Revenue's request for comments on the reform of the structure of the tax charge on company cars, as outlined in Budget Day Press Release IR4, dated 9 March 1999.

### General comments

2. Last year we were invited to comment on the proposals to move to a scale charge with a discount for low private miles (see our representation TAX 19/98). This arose from the Inland Revenue Budget Day Press Release IR 6 dated 17 March 1998. It is therefore surprising, and disappointing, that a decision has been made to move to an entirely different test based on carbon emissions, which was not envisaged in the consultation.

3. It may well be that the new concept was put forward by consultees. However, we think it is important that where there is a major shift in Government thinking following a consultation process, the new ideas (and the detailed reasoning behind them) should themselves be exposed for consultation before being adopted.

### Purpose of the legislation

4. The main purpose of this part of the tax code is to tax people on the benefit they receive from their employment. We therefore believe it is a retrograde step to move to a system which will apparently draw no distinction between the heavy business user and the pure 'perk' car. The proposed new system could easily be modified to take into account some form of discounting to encourage low private mileage usage, in addition to reflecting the environmental concerns of carbon emissions.

5. The new proposal does appear to be flawed. The carbon dioxide emissions which a car produces are directly proportional to the total amount of fuel which it consumes. Therefore to effectively use the tax system to reduce carbon dioxide pollution, the duty on fuel needs to be increased (which of course is also being done). If the purpose of the proposal is to reduce carbon dioxide emissions, solely targeting one class of driver, namely the company car user, will not be sufficient. If that is the purpose, it is also inefficient to have a measure which may persuade some drivers to buy more fuel-efficient cars but then which provides no incentives to reduce the distance that they drive. We believe that to achieve the apparent aims of the reform of company car taxation this issue needs to be addressed.

### Compliance burden

6. We are concerned that the proposed new rules may increase the compliance burden on businesses. The employer will have to establish the rating of each car benefit by emissions. Although we understand that information is available on the carbon dioxide emissions of most new cars, as issued by the

Department of Environment in its 'New Car Fuel Consumption Figures' document, and is intended to be available for all cars by 2002, each employer will have the administrative task of relating this information to their car fleets. We think that it would be helpful if the Inland Revenue could publish tables of carbon dioxide emissions relating to different cars in order that this information would be readily available to employers for the purposes of completing P11D forms.

**Older cars**

7. There are clearly difficulties in relation to older cars and some imported vehicles for which no accurate emission levels will be available. Employers will have to be supplied with some acceptable figures to enable them to implement the proposed scheme or a simple formula for calculating the necessary figures. In addition, we believe that a greater degree of pollution can be traced to older privately owned cars and diesel-powered goods vehicles. We therefore think that it is the wrong message to impose a selective tax on company cars based on carbon emissions, when those cars tend to be newer and better maintained than on average. If the tax system is to be used for environmental purposes, consideration needs to be given to targeting the problem areas.

**Business miles**

8. As mentioned above, we see a strong logic in encouraging a reduction in the number of business miles driven by company car users. For example, it is sensible to discourage users from driving unnecessary extra miles to get into a higher band and to thereby reduce their taxable benefit. We accept there are sound reasons for reducing the discount for business mileage of between 2,500 and 18,000 miles. However, we do believe there is still some need to maintain a discount for those who undertake a high degree of business mileage in excess of 18,000 miles. Business mileage of this level clearly demonstrates a genuine business need and those undertaking such high business mileage also tend to drive very little in the way of personal use mileage.

**Conclusion**

9. We would be happy to discuss any of these points with you further if that would be of assistance.

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