ICAEW REPRESENTATION 157/16

TAX REPRESENTATION

COMPANY CAR TAX FOR ULTRA-LOW EMISSION CARS

ICAEW welcomes the opportunity to comment on the consultation document *Company car tax for ultra-low emission cars* published by HM Treasury on 10 August 2016.

The timing of this consultation document, issued in a similar timeframe to about thirty other papers seeking comments, has restricted the time we have been able to spend on this response.

This response of 19 October 2016 has been prepared on behalf of ICAEW by the Tax Faculty. Internationally recognised as a source of expertise, the Faculty is a leading authority on taxation. It is responsible for making submissions to tax authorities on behalf of ICAEW and does this with support from over 130 volunteers, many of whom are well-known names in the tax world. Appendix 1 sets out the ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark proposals for changes to the tax system.

We should be happy to discuss any aspect of our comments and to take part in all further consultations on this area.

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ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

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GENERAL COMMENTS

1. Given the importance of both the company car to the UK economy and meeting international pollution targets, we consider that appropriate percentages need to be set at rates that do not deter the average employer from providing and the average employee from choosing a company car. We feel that the rates presently set up to 2019/20 are diluting the behavioural impact of the company car tax regime system because the appropriate percentages for a zero CO_2 g/km car are too high and the differential between 'green' and 'un-green' cars too small. We recommend, therefore, that consideration be given to introducing lower rates for ultra-low emission cars earlier than 2020/21.

2. We suggest that CO_2 continues to be the basis for company car taxation with the addition of zero emission miles, and that to help incentivise manufacturers and taxpayers, additional bands be introduced to replace the single 0-50 g/km band, and perhaps the 50-75 band too, and that the bandings be kept as simple as possible.

3. We should mention that HMRC is currently consulting on *Salary sacrifice for the provision of benefits-in-kind* with proposals that will remove the incentive to choose a green car if the car is provided under a salary sacrifice or car allowance scheme, which seems at odds with the government's policy underlying this HM Treasury consultation to promote ultra-low emission cars.

RESPONSES TO CONSULTATION QUESTIONS

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?

4. We agree that the bands should be refined to provide stronger incentives. Presently the lowest band is 0-50 CO_2 g/km which with a 16% charge by 2019/20 provides little incentive to manufacturers to produce, or employers to provide, or employees to select, cars with emissions below 50 CO_2 g/km.

Question 2: Should CO_2 emissions only be used as the basis for new ULEV bands in the company car tax structure from 2020-21 onwards?

5. We recommend that CO_2 emissions should continue to be the basis for the new ULEV bands.

6. Studies indicate that diesel cars emit oxides of nitrogen (NOx), including nitrogen dioxide (NO_2) and nitrogen oxide (NO) and that NO reacts in the atmosphere to form nitrogen dioxide (NO_2) which can have adverse effects on health, which suggests that there is an argument for having an NOx scale for diesel cars. However, as the bands are intended to influence taxpayer behaviour rather than be an exact calculation, and they can best achieve this end if they are kept as simple as possible, we believe that the current 3% diesel surcharge is an adequate proxy.

Question 3: If the new ULEV bands should not be based solely on CO_2 emissions what additional factor should new ULEV bands in company car tax be based on?

A3a zero emission miles

We agree that zero emission miles should be taken into account to help influence the behaviour of manufacturers and taxpayers.

A3b other (specify).

7. Please see answer to Q2.

Question 4: If new ULEV bands were introduced, should these be charged on the basis of a continuous narrower bands (e.g. X appropriate percentage per 5 gram of CO_2 per km), or should there be fewer wider emission rate bands?
A4a continuous, narrower
A4b wider, banded
A4c comment, if you wish.

8. We suggest that rather than continuous narrower bands there should be fewer wider bands, as each 'jump point' provides an incentive for manufacturers to develop and employers to provide and employees to choose cars which are more green. Bands which are too wide might present an impossible hurdle.

Question 5: If there should be fewer wider bands, how many should there be and where should the breakpoints between the bands be?
A5a There should be …. bands
A5b The first breakpoint should be at…..grams of CO_2 per km
A5c Second breakpoint (if any) should be at…..grams of CO_2 per km
A5d Third breakpoint (if any) should be at…..grams of CO_2 per km
A5e other breakpoint (if any) at…..grams of CO_2 per km
A5f comment, if you wish

9. We recommend keeping the bandings as simple as possible; thus, fitting into 2019/20 rates, one might have rates on the lines of, say, 0-10 0%; 10-20 5%; 20-30 10%, 30-40 15% and 40-50 16%. Few cars will achieve 0-10% but it will provide a target for manufacturers to aspire to.

10. We would also counsel against having a rate at zero emissions which is too high as this dilutes the behavioural impact – the presently announced rate of 16% for 2019/20 for 0-50 CO_2 g/km seems excessive for a car of 0-10. In order to incentivise manufacturers to develop and employers and employees to choose greener cars, we suggest that consideration be given to introducing additional bands in the 0-50 CO_2 g/km – and perhaps between 51-75 too – earlier than 2020/21.

Question 6: If zero emission miles should be used as well as CO_2 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 be?
A6a There should be…..zero emission bands?
A6b The first breakpoint should be at…..zero emission miles and….. CO_2/km
A6c Second breakpoint (if any) should be at…..zero emission miles and…..CO_2/km
A6d Third breakpoint (if any) should be at…..zero emission miles and…..CO_2/km
A6e other breakpoints (if any) at….. and…..and….CO_2/km
A6f comment, if you wish

11. We have no comment to provide here save that fewer wider bands when set out in a table are simpler for people to understand.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.

2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.

3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.

4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.

5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.

6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.

7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.

8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.

9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.

10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see via http://www.icaew.com/en/about-icaew/what-we-do/technical-releases/tax).