



Faculty of Taxation

TAXREP 23/03

EMPLOYER-PROVIDED VANS

Memorandum submitted in July 2003 by The Tax Faculty of the Institute of Chartered Accountants in England and Wales in response to a consultation document issued in May 2003 by the Revenue

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EMPLOYER-PROVIDED VANS

INTRODUCTION

1. We welcome the opportunity to comment on the proposals to reform the taxation of company vans as a benefit-in-kind as set out in the consultation document published on 8 May 2003 by the Inland Revenue on their website at http://www.inlandrevenue.gov.uk/consult_new/vans.pdf.

EXECUTIVE SUMMARY

2. The following summarises our views on the consultation issues:
 - The tax treatment of vans should satisfy our ten tenets for a better tax system, in particular simplicity for employers.
 - Familiarity with the rules reduces burdens for employers: the rules should not be changed unless and until a better regime can be found.
 - Because the benefit of the private use of a real van is usually negligible, consideration should be given to abolishing or ameliorating the charge, at least where the driver is obliged to take the van home.
 - 'Lifestyle' vehicles such as double-cab pick-ups should be taxed as cars.
 - The environmental impact of a higher or lower benefit charge is likely to be negligible given that the employer is unlikely to be overly concerned about the employee's tax bill.
 - The environmental impact of encouraging employers to buy new vans has to be counterbalanced against the environmental impacts of manufacture and dumping.
 - A fuel charge would merely exacerbate burdens on employers and employees and would benefit no-one save the exchequer.
3. To summarise our views on the taxation of private use of company vans, whilst we consider that the private benefit of having a van is negligible and should be free of tax, if there is to be taxation of vans as a benefit-in-kind we would prefer to maintain the present regime, under which vans and fuel are taxed as one benefit and the benefit of shared vans is apportioned over the users, subject to taking account of cases where the benefit is negligible owing to an obligation to take the van home and redefining vans so that lifestyle vehicles are taxed as cars.
4. Considering the wider perspective, if the Government really wants to make an impact on the environment, then it should encourage the vehicle industry to manufacture only environmentally-friendly vehicles and to take responsibility for disposing of vehicles which thereby become obsolete.

GENERAL COMMENTS

Towards a better tax system

5. The income tax treatment of vans should, so far as possible, satisfy our ten tenets for a better tax system that we published in October 1999 (TAXGUIDE 4/99, see http://www.icaew.co.uk/taxfac/index.cfm?AUB=TB2I_43160,MNXI_43160). A tax system should be statutory, certain, simple, easy to calculate and collect, targeted, constant, subject to consultation, regularly reviewed, fair and reasonable, and competitive. We consider that the objectives that the Government is seeking to

achieve, namely simplification, environmental friendliness and fairness, are the right ones. However, whilst the approach of the consultation document suggests that much of the thinking behind the design of the new system is along the right lines, as discussed below we question whether the reform proposals will necessarily have the desired effect.

Certainty for employers

6. It is noted in the consultation document in the first paragraph of Section 3 on Environmental Benefits that there is currently no mechanism for recording CO₂ of vans so there is no immediate scope to develop an environmentally-friendly approach. Save for shared vans where the mathematics can be complicated, calculating the benefit-in-kind charge for vans under the current regime is not unduly burdensome for employers. Employers need certainty, and familiarity with the rules saves time for employers. We therefore recommend that rather than impose a new set of rules on employers in the short term which is replaced in a few years by another set of rules, any changes to the taxation of vans to an environmentally-friendly regime should await the introduction of exhaust emission data that is easily accessible to employers.

Basic charge: real vans

7. We consider that radical thinking is needed regarding whether vans should be subject to taxation as a benefit-in-kind. Whilst we acknowledge that from an exchequer viewpoint the revenue derived from a benefit-in-kind charge on 220,000 vans at £500 each (para 13 of the partial regulatory impact assessment refers to drivers, implying that passengers are not included) totals £110million, we question whether in most cases there is a personal benefit where the vehicle is a bona fide van in its generally understood sense as a 'large usually covered vehicle esp. for the conveyance of goods' (Pocket Oxford Dictionary, Fourth Edition). 'Real' vans are generally unsuitable for general private use and recreation and to be given a van is as often as not a burden imposed by the employer.
8. We therefore welcome the recognition in the seventh paragraph of the Introduction that in many circumstances the benefit to employees from the use of a van is negligible, especially where the only use by employees that would be considered private under current legislation is travel between work and home so they can go straight to a job the next morning. We would add that we consider that the benefit is also negligible where an employee is obliged by his employer to take a van home in order that it does not get stolen or vandalised overnight or at weekends at or near the work premises or is obliged to collect fellow worker(s) en route to the workplace or drop them off in the evening.
9. We accordingly consider that the private use benefit-in-kind charge on real vans should be abolished altogether, or, if this is unacceptable, at least abolished where the only use that would be considered private under current legislation is that referred to in the previous paragraph.

Real vans v 'lifestyle' vehicles

10. The second paragraph of the Introduction refers to 'multi-purpose lifestyle vehicles'. There is a need to reconcile the benefit-in-kind tax treatment of real vans with that of

vehicles that for all intents and purposes are cars but are classified as vans. We have in mind vehicles such as double-cab pickups and the like which are described as vans but are in reality large cars. We suggest that IF tax law provided a better description of what is (or is not) a van, much of the problem would disappear. The proposal in the third bullet under Private Use of a Van that vans be ‘permanently suitably equipped’ is too vague. For ease of compliance, it would be preferable if definitions for tax were consistent with definitions for other purposes, and it would be simpler for employers if they could inspect the vehicle log book to ascertain whether or not the vehicle is a van.

11. We note that the Driver and Vehicle Licensing Agency (‘DVLA’) changed its classifications for rates of vehicle excise duty from 1 March 2001 and further refined them from 1 March 2003. This might provide a ready-made way of distinguishing between the real van and the lifestyle vehicle, failing which no doubt the Revenue can work with DVLA and manufacturers and professional bodies such as ourselves to arrive at suitable, preferably unambiguous, definitions.
12. Objective tests for determining whether a vehicle is a van save time for employers. An alternative method might be to have a ‘primary use’ test, which would result in double cab pickups being taxed according to whether they were really used as cars or commercial vehicles but would be difficult to police in practice, as experience has shown. Environmentally, the potential difficulty of using only an objective but arbitrary cut-off point based on payload (such as that currently used) is that it is more likely to influence behaviour towards heavier and less fuel-efficient vehicles among those drivers who can choose their company vehicle.

Rate of charge: quantum

13. The first paragraph of the Introduction notes that the £500/£350 scale charges have not changed since their introduction in 1993. Whilst the charge is too low for users of lifestyle vehicles, we question whether the true value of the benefit to an individual who voluntarily drives home from work in a real van each evening is often much different from this figure. For example, a Zone 1 London Underground annual season ticket costs £660 and that covers all bus zones, while a West Yorkshire annual ‘Metrocard’ for bus and local train travel costs £545.

Reduced rate of charge for older vans

14. The suggestion that the reduced charge for older vans should be abolished seems to be moving away from the principle that an income tax charge on a benefit-in-kind should be proportionate to, or a proxy for the value of, the benefit received. On this basis, we would have thought that the value to the individual of any benefit of using a new van is more than the value of the benefit of using an old van and we consider that the tax system should continue to reflect this.

Environmental impact of higher or lower benefit-in-kind charge

15. An intended by-product of the second objective in the Executive Summary of changing the taxation of vans is probably to drive old high-emission vans off the road. However, we fear that this will fail for the following reasons.

16. If one ignores the position of, for example a director choosing to drive a double-cab pick-up instead of a company car, which is a special case as outlined above, the average employee van-driver does not have a say in the purchasing decision of the vehicle he drives. Unlike employees who drive company cars (who tend to be senior or much-valued employees), those who are required to drive ordinary vans cannot demand a particular van as part of their salary package. Most employers will not be too concerned about how much tax the employee has to pay if he drives the company van privately. The Class 1A NIC charge on the employee's benefit-in-kind is an insignificant cost in relation to the whole-life operating costs of a van. The choice of (a real) company van will be made for commercial and economic reasons, not on the level of tax paid on a benefit-in-kind by a low-status employee. So questions 8 (does higher scale charge influence purchasing decision) and 11 (would lower scale charge encourage purchases of alternative fuel vehicles) are misconceived, as a higher or lower benefit-in-kind charge for the van-driver will not of themselves make the employer buy a different van.
17. To put it in plain terms, even a significantly higher benefit-in-kind charge for an employee is not a major financial incentive for the employer to buy an environmentally-friendly new van and is unlikely to change employer behaviour to any noticeable degree.

Environmental impact of encouraging use of new, alternatively-fuelled vans

18. Section 3 of the consultation paper (and Question 12) refers to the benefit-in-kind charge taking account of different alternative fuels and complementing reforms already undertaken for company cars.
19. This is laudable in principle, but the company car charge applies differently depending on whether the vehicle was built to run on say liquid petroleum gas ('LPG') from the start or converted. Those that are manufactured to run on LPG have a lower official emissions rating whereas conversion reduces the original list price percentage by only 1%. Vans are more suitable than cars for conversion to LPG due to their bulk, as they can easily carry the large LPG tank.
20. Introducing positive tax breaks to encourage employers to replace perfectly serviceable old vans gives rise to a number of issues, not least of which are the resources, pollutants and emissions etc. required to manufacture the new vans which on the face of it might outweigh the benefits of lower emissions. The proposal would also give rise to:
- Unnecessary/accelerated costs;
 - Greater piles of metal in used car yards; and
 - More dumped vehicles in side roads which are then frequently vandalised.
21. The environmental benefits of changing the tax system should consider the position in the round, not just emissions from exhaust pipes. The first rule of being environmentally friendly is to reuse and recycle, not buy new each time. We suggest that the government should be encouraging employers to convert their older vans to LPG rather than use up more of the earth's resources by buying a new vehicle and dumping the old van or selling it to a private buyer to be run into the ground.

Fuel benefit-in-kind charge for vans

22. Imposing a fuel charge on employees' private use of vans will create major problems for employers and employees. We wonder how many van drivers will record the number of private miles driven to avoid the fuel charge. We suspect very few. A private use benefit-in-kind charge will simply result in a tax rise for low-paid employees as in practice they will not record private mileage, or if they do, certainly not accurately, and are unlikely to pay their employer for the private fuel used as the administration of such payments would be an extra burden for employers.
23. If a private use fuel charge were introduced, employees and employers are likely to prefer that employees buy all the fuel and claim a fuel-only mileage rate back from the employer. The Revenue would have to come up with an acceptable 'fuel only rate' for vans. This may vary considerably as the fuel consumption for different vans varies enormously, depending not least on how much pay-load they are carrying. Then there is the problem of recording accurately work-related journeys, and explaining to the van driver exactly what is and what is not a work-related journey.
24. In short, a fuel charge for vans will effectively be another tax charge on van drivers, and yet another burden for employers and employees to grapple with.

CONSULTATION QUESTIONS

25. Our answers to the questions should be read in the context of our general comments above. We have not answered the lettered questions, as we expect that employers who respond to this consultation will do so.

Private use of a van

- 1 Do you agree that retention of a scale charge would help to keep things simple?
26. We agree that a scale charge would help to keep things simple, particularly if the number of rates is limited.
2. Do you agree that the level of charge should vary according to the level of private benefit, including a lower charge where there is no private travel other than where work to home travel by van is obligatory?
27. Whilst varying the scale charge according to circumstances runs the risk of making the calculation more complicated, in principle we consider that the tax charge should reflect the benefit received. We therefore favour no charge or a lower scale where work to home travel is obligatory. This would cover situations where the employee has to take the van home for security reasons, and/or to enable him to get himself and possibly others to and from the job the following day
3. If so, what tests could be applied to determine the level of private benefit and how would these be enforced?
28. In the interests of simplicity, the number of tests needs to be kept as low as possible. It could comprise a simple question on form P11D along the lines of: 'Is the

employee obliged to take the van home at night and forbidden by you from using it privately save for home to work travel and is this what happens in practice?'. Enforcement could be in the same way as other benefits-in-kind, i.e., by way of spot checks during employer compliance reviews.

Shared vans

4. Do you agree that the current shared vans definition should be retained?

29. We consider that the current definition should be retained.

5. Do you agree that the charging provisions for shared vans should be simplified?

30. Whilst the arithmetic can be complex, it gives a fair result and we are inclined towards retaining the status quo.

Environmental benefits

31. By way of preface to this section, the effect on the environment of amending the tax regime for private use of vans will be minimal. The main effects of change will be to impose on employers the burdens of learning a new set of rules and maybe paying more Class 1A NICs.

6. Do you agree that the charge should reflect environmental objectives which will align the van benefit charge principles with the company car benefit charge?

32. We agree in principle that environmental objectives should help shape the tax treatment of vans but given the small private benefit that accrues to employees who have company vans and the likely negligible environmental effects in practice of changing the regime, other factors, such as simplicity and fairness, need to have higher priority.

33. As to aligning the taxation of company vans with company cars, save for lifestyle vehicles referred to above, we see no reason why the taxation of what is essentially a tool of the employer's trade should be aligned with the taxation of company cars. See our general comments for further explanation.

7. Do you agree that the current reduction for older vans should be abolished?

34. We agree that abolition would make it less tax-advantageous for the employee who has private use of an older van and would send the environmentally-friendly message that employers should use more modern, and by implication, more environmentally-friendly vans. However, on the assumption that a tax charge on what is perceived to be a private benefit should relate in some way to the value of the benefit, we find it difficult so see how the benefit of using an old van is the same as using a new van.

35. Employers should be encouraged to make existing vans more efficient, perhaps by way of grants for conversion, rather than disposing of old vans which may continue to create pollution either because they are driven into the ground or are dumped.
8. Would a higher scale charge for older vans encourage earlier replacement or influence purchase decisions?
36. The tax charge is only one factor that is taken into account by employers when considering the costs/benefits of a particular van, and given that it is the employee who bears this cost, it is only a minor consideration for the employer. Whatever the tax costs, in the short term, the inconvenience of changing a van may outweigh high running costs for the employer, let alone the social and environmental costs of the production of a new van and dumping the old. See also our reply to question 7.
9. Do you agree that the charge should be based on Euro emission standards?
37. We would have no objection to this, assuming that the figures are readily available, preferably on the vehicle registration document and on the DVLA website, so that employers, employees, advisers and Inland Revenue and Customs & Excise officers can ascertain easily the tax costs of particular vans.
10. Would a different level of charge for Euro IV and non-Euro IV vans encourage earlier replacement or influence purchase decisions and therefore increase take up of Euro IV vans?
38. As noted in question 8, the tax charge is a minor factor that is taken into account by employers when considering the costs/benefits of a particular van and other things being equal, a significantly lower tax charge may have some influence on purchasing decisions.
11. Would a reduced charge for vehicles that run on alternative fuels encourage employers to purchase these vehicles?
39. As noted in questions 8 and 10, the tax charge is a minor factor that is taken into account by employers when considering the costs/benefits of a particular van and other things being equal, a significantly lower tax charge may have some influence on purchasing decisions.
12. What level of reduction would be suitable for different alternative fuels, and what are likely to be the resulting extra number of alternatively fuelled vans?
40. Depending on the level of the charge, we suggest that a discount of between one third or one half for more environmentally-friendly fuels might have a bearing on the decisions of employers.

Fuel benefit charge

41. We would preface this section by referring to our general comments, in which we state that introducing a vans fuel charge would be burdensome for employers and an

effective additional tax for employees. We see no real justification for separating the provision of the van from the fuel it needs to run on.

13. Do you agree that introducing a fuel benefit charge would produce a fairer system better aligned with the company car tax system?
42. Whilst it would make the taxation of vans more in line with cars, as mentioned above, we see no reason why private use of what is in essence a tool of the trade should be taxed in the same way as private use of a car.
14. If a fuel benefit charge is introduced to what extent would this discourage employers from providing free fuel for private use?
43. The level of the fuel charge would give rise to similar behavioural effects as for cars: that is to say, if the fuel benefit was set at a level which made it more economical for the employee to buy his own fuel, then it is likely that employers will be discouraged from providing free fuel for private use.
15. If a fuel benefit charge is introduced to what extent would this discourage employees from accepting free fuel for private use?
44. The level of the fuel charge is likely to give rise to similar behavioural effects as for cars: that is to say, if the fuel benefit was set at a level which made it more economical for the employee to buy his own fuel, then it is likely that employees will be discouraged from accepting free employer-provided fuel for private use. See our general comments.
16. Do you agree that the fuel benefit charge should be graded to account for the environmental impact of the van, for example tied to Euro IV compliance?
45. We would prefer that the number of scale rates be kept as few as possible.
46. If it is wished to give employers extra work by grading the fuel rates, then the data must be readily available, for example on the vehicle log book. If the rate adopted is a sliding scale, then we suggest that the amount be set so that the employer has only to look up one figure when computing the benefits-in-kind figures for the van and the fuel.

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