

## TAXREP 27/06

### VAT FUEL SCALE CHARGES: REVISED SYSTEM BASED ON CO<sub>2</sub> EMISSIONS

*Memorandum submitted in September 2006 by the Tax Faculty of the Institute of Chartered Accountants in England and Wales in response to an invitation to comment issued in August 2006 by HMRC*

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# Tax Representation

## **VAT FUEL SCALE CHARGES: REVISED SYSTEM BASED ON CO<sub>2</sub> EMISSIONS**

### **INTRODUCTION**

1. We welcome the opportunity to comment on the proposals in your technical note received on 15 August.
2. Details about the Institute of Chartered Accountants in England and Wales and the Tax Faculty are set out in Annex A. Our Ten Tenets for a Better Tax System which we use as a benchmark are summarised in Annex B.

### **KEY POINT SUMMARY AND RECOMMENDATIONS**

3. We consider that:
  - In the interests of simplicity, there should be as small a number of bands as possible for VAT. Having 21 bands for VAT would be over complex and burdensome for business.
  - We suggest that the VAT rates be based on the Vehicle Excise Duty ('VED') bands, and owing to the small VAT differential between the biggest and the smallest cars (at least on current figures), the VAT bands should be 'grouped' so that for VAT there are less bands than the seven currently used for VED.
  - As to compliance costs, once people are familiar with the new system, then provided there are relatively few bands, the use of a CO<sub>2</sub>-based system is of itself unlikely to present considerable extra costs as compared to a cc-based system.
  - A decision should not be made on the VAT scales without taking into account the outcome of the Budget Day 2006 consultation on relief for business expenditure on cars.

### **GENERAL COMMENTS**

4. The change to a CO<sub>2</sub> based system for VAT purposes is unlikely to present considerable extra effort and cost for many company car fleets since the CO<sub>2</sub> data for each car is already being collated as the basis for the benefit in kind calculation and completion of forms P11D and is readily available these days.
5. In terms of the cost of software changes, we would imagine that the costs should be relatively minor and perhaps just a case of linking the calculation from a cc based table to CO<sub>2</sub> data which may already be held in the system or can be imported from elsewhere.
6. Using the same bands for VAT and benefits-in-kind could on the face of it be seen as an advantage. However, the creation of 21 bands (in contrast to the current 2 or 3) would be seen as excessive gold-plating and running counter to Government claims that it wishes to simplify tax. Each band would have a different scale charge, and would be increased annually. We would expect a 21 band VAT scale to present difficulties and increase error rates in calculations when compared to the current

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two/three bands. Significant numbers of businesses will be involved in the annual exercise.

7. At current rates, the VAT differential between the minimum and maximum fuel scale charge is £43 pa for diesel and £140 pa for other fuels. If a 21 band system were introduced, then (also at current rates) the VAT differential between each band would only be £2.05 pa for diesel and £6.67 pa for other fuels. This seems unnecessarily complex: so far as VAT is concerned, broader bands would achieve the Government's objective just as effectively and would increase the likelihood of businesses getting the calculations correct. We approve of aligning the VAT scales with another existing scale but recommend that rather than adopting for VAT the 21 bands currently proposed for benefits-in-kind, the VAT bands should follow the seven VED bands. As a further simplification, the seven VED bands could be grouped for VAT, further reducing the number of bands required.
8. Presumably there will still be some kind of engine-based calculation for those vehicles registered before March 2001 or where the CO<sub>2</sub> data is not available, similar to the regime for benefits-in-kind taxation.

## NUMBER OF BANDS – FURTHER COMMENTS

9. There is currently a HMRC/HMT Budget Day 2006 consultation paper out for discussion 'Modernising Tax Relief for Business Expenditure on Cars'. This is open for consultation until 22 September. One of the issues it raises is what is the best scale to use, a 21 band system or some other system.
10. In these circumstances we question why the technical paper proposes a 21 band system for VAT without waiting to see the results of the business expenses consultation on the direct tax side.
11. Whilst we can see that employers might well like the same system for direct and indirect tax, the VAT fuel scale charge also applies to the self employed and we find it hard to imagine that the self employed would want to cope with a 21 band system. Indeed, as we would not expect the VAT return to be dealt with by the payroll department in a large business, we would be surprised that large businesses should want this either.
12. The objective of the Government is straightforward: namely, to encourage people to use greener cars. Whilst we can appreciate the argument that for benefits-in-kind having a large number of relatively narrow bands can influence beneficially decisions at the margins leading to incremental improvement, having 21 VAT bands is unlikely to have a similar impact and any such advantage would be outweighed by the increased potential for error. This obviously affects smaller and less sophisticated businesses to a greater proportionate degree.

## QUESTIONS POSED

13. Turning to the questions posed we comment as follows – we are unable to provide statistical data in the time available.

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**Q1** How many fleets are there in the UK (both managed in-house and by external fleet managers) and approximately how many cars would they represent?

14. We have no idea of the answer, but some fleets that by some standards may seem relatively small, for example 20 cars, are managed by external fleet managers.

**Q2** How many of these fleets are managed by external fleet operators?

15. We have insufficient data to answer this question.

**Q3** If an external fleet manager makes the necessary system changes, can we assume that these costs would be spread across all the businesses that use the services of that fleet manager?

16. It would depend on the fleet manager's pricing structure and the terms of contracts with customers.

**Q4** How many fleets would use standard fleet management packages, how many such packages exist and who would be responsible for any change of design – would the provider of the standard fleet management software package make the necessary amendments or would responsibility fall to the individual fleet manager? If the provider of the software package makes the changes, would you expect a charge to be made for what would be a fairly straightforward change?

17. We have insufficient data to answer this question.

**Q5** Do you have any feel for how many fleets or businesses use the fuel scale charge?

18. On the basis that many larger employers and those who have fleets have ceased to provide private fuel benefits (given the cost inefficiencies of this particular benefit-in-kind), the number of cars where the VAT fuel scale charge applies could well be very much the minority - this assumes that the businesses do not recover all the VAT via a fuel card or similar and simply claim 7/47 of a rate paid per business mile. Within sole traders and partnerships, there is a larger proportion who use the fuel scale charges.

**Q6** Do you see any efficiency gains from having the various motoring charges, ie VED, company car benefit etc and VAT all based on CO<sub>2</sub> emissions?

19. We think that any efficiency gains would be minimal. There would however be efficiency gains from having the smallest possible number of bands as this will minimise the potential for error.

PCB  
15.9.06

### ICAEW AND THE TAX FACULTY: WHO WE ARE

The Institute of Chartered Accountants in England and Wales ('ICAEW') is the largest accountancy body in Europe, with more than 128,000 members. Three thousand new members qualify each year. The prestigious qualifications offered by the Institute are recognised around the world and allow members to call themselves Chartered Accountants and to use the designatory letters ACA or FCA.

The Institute operates under a Royal Charter, working in the public interest. It is regulated by the Department of Trade and Industry through the Accountancy Foundation. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy, including taxation.

The Tax Faculty is the focus for tax within the Institute. It is responsible for tax representations on behalf of the Institute as a whole and it also provides various tax services including the monthly newsletter 'TAXline' to more than 11,000 members of the ICAEW who pay an additional subscription.

To find out more about the Tax Faculty and ICAEW including how to become a member, please call us on 020 7920 8646 or email us at [tdtf@icaew.co.uk](mailto:tdtf@icaew.co.uk) or write to us at Chartered Accountants' Hall, PO Box 433, Moorgate Place, London EC2P 2BJ.

### THE 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 <http://www.icaew.co.uk/index.cfm?route=128518>.