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Chancellor of the Exchequer George Osborne delivered his fifth Budget speech yesterday (Wednesday, March 19, 2014). Below we highlight the Chancellor's key measures that will impact on the company car and van sector and wider motor industry.

Company Car Tax

The Budget papers set out company car benefit-in-kind tax rates for 2017/18 and 2018/19, while also confirming previously announced rates for the two years up to and including 2016/17, which includes the removal of the 3% diesel supplement (see chart below).

In 2017/18 and 2018/19 the appropriate percentage of list price subject to tax will increase by two percentage points for cars emitting more than 75g/km of carbon dioxide (CO_2), to a maximum of 37%.

However, the Chancellor has changed his mind in relation to previously announced increases in rates for the two lowest thresholds – 0-50g/km and 51-75g/km – and altered the differential between those rates and the 76-94g/km threshold.

In Budget 2013, the Chancellor said that the differential between the 0-50 and 51-75g/km CO_2 bands and between the 51-75 and 76-94g/km bands would be three percentage points in 2017/18 reducing to two percentage points in 2018/19.

However, in Budget 2014 he changed his mind and said the differential would be four percentage points and three percentage points respectively. It was, he said, a mechanism through which he could incentivize the take-up of ultra low emission vehicles.

The small print of the Budget papers reveal that the increases in company car tax are forecast to generate an additional £240 million for HM Treasury in 2017/18 and £480 million in 2018/19.

The Budget papers also revealed that the differential would reduce further to two percentage points in 2019/20.

The Chancellor added that the Government remained committed to reviewing incentives for ultra low emission vehicles in light of market developments at Budget 2016, to inform decisions on company car tax from 2020/21 onwards.

of P11D	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Price	CO2 (g/km)	CO2 (g/km)	CO2 (g/km)	CO2 (g/km)	CO2 (g/km)	CO2 (g/km)
0	0	0	n/a	n/a	n/a	n/a
5	1-75	1-75	0-50	n/a	n/a	n/a
7	n/a	n/a	n/a	0-50	n/a	n/a
9	n/a	n/a	51-75	n/a	0-50	n/a
10	76-94	n/a	n/a	n/a	n/a	n/a
11	95-99	76-94	n/a	51-75	n/a	n/a
12	100-104	95-99	n/a	n/a	n/a	n/a
13	105-109	100-104	76-94	n/a	51-75	0-50
14	110-114	105-109	95-99	n/a	n/a	n/a
15	115-119	110-114	100-104	76-94	n/a	n/a
16	120-124	115-119	105-109	95-99	n/a	51-75
17	125-129	120-124	110-114	100-104	76-94	n/a
18	130-134	125-129	115-119	105-109	95-99	n/a
19	135-139	130-134	120-124	110-114	100-104	76-94
20	140-144	135-139	125-129	115-119	105-109	95-99
21	145-149	140-144	130-134	120-124	110-114	100-104
22	150-154	145-149	135-139	125-129	115-119	105-109
23	155-159	150-154	140-144	130-134	120-124	110-114
24	160-164	155-159	145-149	135-139	125-129	115-119
25	165-169	160-164	150-154	140-144	130-134	120-124
26	170-174	165-169	155-159	145-149	135-139	125-129
27	175-179	170-174	160-164	150-154	140-144	130-134
28	180-184	175-179	165-169	155-159	145-149	135-139
29	185-189	180-184	170-174	160-164	150-154	140-144
30	190-194	185-189	175-179	165-169	155-159	145-149
31	195-199	190-194	180-184	170-174	160-164	150-154
32	200-204	195-199	185-189	175-179	165-169	155-159
33	205-209	200-204	190-194	180-184	170-174	160-164
34	210-214	205-209	195-199	185-189	175-179	165-169
35	215+	210+	200-204	190-194	180-184	170-174
36	n/a	n/a	205-209	195-199	185-189	175-179
37	n/a	n/a	210+	200+	190+	180+

- Up to the end of tax year 2014/15 add 3% for diesel cars up to a maximum of 35%
- For tax year 2015/16 add 3% for diesel cars up to a maximum of 37%
- In 2016/17 petrol and diesel cars are treated equally for company car tax purposes

Comment

The Government is leaving itself little room for manoeuvre by continuing to pursue a company car benefit-in-kind tax system based on carbon dioxide (CO2) emissions.

Introduced in April 2002, it was inevitable that the drive to ever more efficient cars influenced by vehicle taxation was going to erode Government tax revenues.

Hence, the Government is raising rates at levels of up to four percentage points, while continuing to try to encourage the take-up of ultra low emission models to meet its air quality agenda.

Nevertheless, the fact is that a company car driver choosing an ultra low emission company car – defined by the Government as one producing 75g/km of CO2 or less – will be on the receiving end of benefit-in-kind tax bills rising at a far steeper rate than drivers selecting a vehicle with higher emissions.

For example, an employee selecting a zero emission electric vehicle as their company car in 2014/15 will be subject to 0% benefit-in-kind tax, but by 2018/19 the tax liability will have increased to 13%. Meanwhile, an employee selecting a car with emissions of 120g/km in 2014/15 will face a tax liability of 17% (20% if a diesel) rising to 25% in 2018/19.

The Government has promised to review incentives for ultra low emission vehicles in light of market developments at Budget 2106, so it can make decisions on company car tax from 2020/21 onwards.

What is required is a whole new rethink. CO2 emissions were a sound basis for a company car benefit-in-kind tax regime when they were introduced in 2002, but a different methodology is now required based on different criteria.

Vehicle Excise Duty

On April 1, 2014 VED rates for cars, motorcycles and the main rates for vans will increase by RPI.

The Government will also freeze the VED rates for Euro 4 and Euro 5 light goods vehicles in 2014/15.

However, as announced at Budget 2013, from April 1 2014 the Government will reduce and re-structure VED rates for HGVs within the HGV Road User Levy scheme.

Meanwhile, the Government will introduce a rolling 40-year VED exemption for classic vehicles from April 1 2014. That means vehicles constructed 40 or more years ago will be exempt from VED on an automatic rolling basis on April 1 each year.

The Budget papers also confirmed that, as announced in last year's Autumn Statement, in a bid to simplify VED administration a paper tax disc will no longer be issued and required to be displayed on a vehicle's windscreen from October 1 2014.

Vehicle Excise Duty from April 1 2014 for cars registered on or after March 1 2001

VED Band	CO_2 Emissions g/km	2014/15	
		First Year Rate*	Standard Rate*
A	Up to 100	0	0
B	101-110	0	20
C	111-120	0	30
D	121-130	0	110
E	131-140	130	130
F	141-150	145	145
G	151-165	180	180
H	166-175	290	205
I	176-185	345	225
J	186-200	485	265
K**	201-225	635	285
L	226-255	860	485
M	Over 255	1,090	500

*Alternative fuel discount 2014/15 £10 all cars
** Includes cars emitting over 225 g/km registered before 23 March 2006.

VED bands and 2014/15 rates for vans registered on or after March 1st 2001.

Early Euro 4 and Euro 5 compliant vans - £140
All other vans - £225

Fuel

The Chancellor confirmed his Autumn Statement 2013 announcement that September's planned 1.6p per litre rise in fuel duty was cancelled. It means that there will be no rise in fuel duty prior to 2015 general election.

Meanwhile, legislation will be introduced in Finance Bill 2015 to apply a reduced rate of fuel duty to methanol composed of 95% pure methanol and 5% water, to be implemented from April 1, 2015. The rate of fuel duty applied to methanol will be 9.32p per litre. The size of the duty differential between the main rate and methanol will be maintained until March 2024.

The Government says it will review the impact of the incentive alongside the duty incentives for road fuel gases at Budget 2018.

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Car Fuel Benefit Charge 2014/15

Employees who are in receipt of company-funded fuel used privately will see their benefit-in-kind tax bills rise from April 6, 2014.

The Chancellor has announced that the fuel benefit charge multiplier for company cars will increase from “21,100 in 2013/14 to £21,700 in 2014/15.

From April 6, 2015 the multiplier will once again increase by RPI.

Van Benefit Charge 2014/15

The van benefit-in-kind tax charge will increase from £3,000 in 2013/14 to £3,090 in 2014/15, the Chancellor has announced.

From April 6, 2015 the charge will once again increase by RPI.

However, the Government will extend van benefit charge support for zero emission vans to April 5, 2020 on a tapered basis.

For five years until the end of 2014/15 zero emission vans were exempt from benefit-in-kind tax. However, from 2015/16 the charge paid by zero emission vans will be 20% of the rate paid by conventionally fuelled vans, followed by 40% in 2016/17, 60% in 2017/18, 80% in 2018/19 and 90% in 2019/20, with the rates equalized in 2020/21.

The Government says it will review van benefit charge support for zero emission vans in light of market developments at Budget 2016.

Van Fuel Benefit Charge 2014/15

From April 6, 2014 the van fuel benefit charge multiplier will increase from £564 to £581, according to the Budget papers published following the Chancellor’s statement.

From April 6, 2015 the charge will once again increase by RPI.

Enhanced Capital Allowances

The Government will extend the enhanced capital allowances for zero emission goods vehicles to March/April 2018. However, to comply with European Union state aid rules the availability of the allowance will be limited to businesses that do not claim the Government’s Plug-in Van Grant.

Road Repairs

The Chancellor announced a £200 million ‘potholes challenge fund’. Billed as ‘emergency funding’ local authorities will be able to bid for the cash to repair up to 3.2 million potholes following the recent severe weather.

Tax Simplification

A string of tax simplification measures impacting on businesses and employees that drive company vehicles and their own cars on work-related journeys could be introduced by the Government.

In the run-up to the Budget the Office of Tax Simplification published two reports aimed at simplifying what it called ‘the complex system’ for the reporting and taxing of benefits and expenses for four million employees and 300,000 employers.

In response to the recommendations made in the Office of Tax Simplification’s reports, the Government says it will consult on a package of four simplifications based with a view to introducing legislation in Finance Bill 2015. They are:

- Abolishing the threshold for the taxation of benefits-in-kind for those employees who earn less than £8,500, with action to mitigate the effects on any vulnerable groups disadvantaged by the reforms
- Introducing a statutory exemption for trivial benefits
- Introducing a system of voluntary payrolling for benefits-in-kind
- Replacing the expenses dispensation regime with a Reimbursed Expenses Exemption.

Additionally, the Government has confirmed its intention to review the rules underlying the tax treatment of travel and subsistence expenses and, in addition, will issue a separate call for evidence on remuneration practices and patterns to inform any future reforms

Further Information

For further information please contact the logical™ Communications Team on 0121 779 0921
www.logicalvm.co.uk