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## CHANGES TO COMPANY CAR TAX FROM 2011-12

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### Who is likely to be affected?

1. Employees who pay income tax on a car that has been provided for their private use by their employer. Employers who pay Class 1A National Insurance contributions on the taxable benefit of a company provided car.

### General description of the measure

2. Legislation will be introduced in Finance Bill 2009 to:
  - set the rates of company car tax for 2011-12 and subsequent years; and
  - abolish the £80,000 price cap used to determine the cash equivalent of the car benefit charge, from 2011-12.

The discounts given to cars using various alternative fuels (see fourth bullet under paragraph 6 below) will be abolished from 2011-12 by revoking secondary legislation (the relevant regulations are the Income Tax (Car Benefits) (Reduction of Value of Appropriate Percentage) Regulations 2001 (SI 2001/1123)).

### Operative date

3. The legislation will have effect on and after 6 April 2011.

### Current law and proposed revisions

4. Where a car is made available for an employee's private use, a taxable benefit arises under sections 114 and 120 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA).
5. Company car tax is calculated by applying the appropriate percentage to the list price of the car. The appropriate percentage is related to the CO<sub>2</sub> emissions of the car and ranges from 15 per cent to 35 per cent in 1 per cent increments for every 5g/km of CO<sub>2</sub> emissions for a petrol car. Most diesel cars attract a 3 per cent supplement (though the maximum is also capped at 35 per cent). A lower rate of 10 per cent for cars with CO<sub>2</sub> emissions of exactly 120 g/km or less (13 per cent for most diesels) was introduced from 6 April 2008 to promote environmentally friendly vehicles. These cars are known as "qualifying low emissions cars" (QUALECs). A

lower rate of 9 per cent applies to electrically propelled cars. There are also discounts for electric/petrol hybrid cars and Euro IV standard diesel cars registered before 1 January 2006. Discounts are also given to cars propelled by bi-fuels, road fuel gas and bioethanol. Currently, when calculating the cash equivalent of the car benefit charge, the list price of the car is capped at £80,000.

6. From 2011-12:

- the lower threshold CO<sub>2</sub> emissions figure (130g/km for 2010-11) will be reduced by 5g/km to 125g/km;
- the £80,000 price cap that currently applies when calculating the cash equivalent of the car benefit will be abolished;
- the “appropriate percentage” applicable to electrically propelled cars first registered from 1998 onwards will be reduced from 15 per cent to 9 per cent. This is a simplification measure: the rate is currently 9 per cent but this is achieved through a reduction of 6 per cent given to such cars by virtue of regulation 4 of SI 2001/1123. Accordingly, regulation 4 will be revoked from April 2011. Also, the provisions relating to electrically powered cars first registered before 1998 will be removed as there are no cars to which they can apply; and
- the reductions currently given by SI 2001/1123 for electric/petrol hybrid cars and cars propelled by bi-fuels, road fuel gas and bioethanol will be abolished. The discount given for Euro IV standard diesel cars registered before 1 January 2006 will also be abolished. This will change the focus of the legislation from the means by which the car achieves its CO<sub>2</sub> emissions figure to the CO<sub>2</sub> emissions figure itself. The relevant regulations will be revoked from April 2011.

**Further advice**

7. If you have any questions about this change, please contact Basil Rajamanie on 020 7147 2384 (email: basil.rajamanie@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)