

Appendix 1A Introductory guide to new system for taxing car benefits

Introduction

A new system for taxing car benefits starts on 6 April 2002. Guidance on the main changes is included here in the 2001 edition of this booklet for two reasons:

- To help you to work out the benefit charge under the new system for cars that employers intend continuing providing after 5 April 2002
- To help employers to complete the revised version of form P46(Car) that they should use to tell the Revenue about changes in the company cars provided to employees after 5 April 2001. Much of the form stays the same. But it also asks for the new information that we need for the new system. This guide will help employers to complete the new parts of the form. We will then be able to get employees' tax codes right for the new system.

How the new system for taxing car benefits will work

The new system will not change the rules described in chapters 11 and 12 about when a car benefit charge arises or the way in which the price of the car is calculated for car benefit purposes (apart from bi-fuel gas cars – see below).

From 6 April 2002, the charge on the benefit of a company car will still be calculated as a percentage of the price of the car (normally list price). But the percentage will be graduated according to carbon dioxide (CO₂) emissions, and the adjustments for business mileage (including those for second cars), and older cars will no longer apply. Key features are:

- The minimum normal charge will be 15% of the list price of the car for the cars with the lowest CO₂ emissions, and the maximum charge will be 35% for cars with high emissions.
- There will be a 3% of list price supplement for diesel cars which do not meet the Euro 4 standard (see below), subject to the 35% maximum charge.
- There will be discounts for certain cleaner alternatively-propelled cars – and these may reduce the minimum charge to less than 15%.
- Cars without an approved figure of CO₂ emissions will be taxed according to engine size (see below). This will include all cars first registered before 1998 but only a tiny proportion of those first registered 1998 and later.

How car benefit is calculated for a car with an approved CO₂ emissions figure

- The charge builds up from the normal minimum of 15% of car's price
- The minimum charge applies to cars emitting CO₂ at or below a qualifying level - measured in grams per kilometre (g/km).
- The charge builds up in 1% steps for every additional full 5g/km over that level
- There is an overriding maximum charge of 35% of the car's price.

Disabled employees

If the only car that a disabled employee can drive is one with automatic transmission, the car benefit charge will be calculated using the approved CO₂ emissions of the closest manual equivalent.

Examples

The following examples show how to calculate the car benefit charge under the proposed new rules. The figure described as the basic car benefit charge in each example may be reduced if the employee has to pay for private use of the car, or if the car is unavailable for part of the tax year.

Example 1 – Petrol car

- Price of the car is £15,000. Approved figure of CO₂ emissions is 183g/km.
- Round 183 down to 180.
- Look up percentage of car's price in ready reckoner (on next page)
- Percentage for 2002-03 is 18%.
- Basic car benefit charge is £15,000 x 18% = £2,700.
- Percentage for 2003-04 is 20% and percentage for 2004-05 is 22%.

Example 2 – Diesel car (but not one that meets Euro 4 standards)

- Price of the car is £15,000. Approved figure of CO₂ emissions is 166g/km.
- Round 166 down to 165.
- Look up percentage of car's price in ready reckoner (over the page)
- Percentage for 2002-03 is 15%.
- Add 3% diesel supplement, so percentage increased to 18%.
- Basic car benefit charge is £15,000 x 18% = £2,700.
- Percentage for 2003-04 is 20% (17+3) and percentage for 2004-05 is 22% (19+3).

Ready reckoner of car benefit charges

This shows the qualifying levels for the minimum charge for the first three years of the new system as well as the percentages to use in working out the car benefit charge for each band of CO₂.

Note: The exact CO₂ figure is always rounded down to the nearest 5 grams per kilometre (g/km). For example, CO₂ emissions of 188g/km are treated as 185g/km.

CO ₂ Emissions in grams per kilometre			Percentage of car's price taxed
2002/03	2003/04	2004/05	
165	155	145	15*
170	160	150	16*
175	165	155	17*
180	170	160	18*
185	175	165	19*
190	180	170	20*
195	185	175	21*
200	190	180	22*
205	195	185	23*
210	200	190	24*
215	205	195	25*
220	210	200	26*
225	215	205	27*
230	220	210	28*
235	225	215	29*
240	230	220	30*
245	235	225	31*
250	240	230	32*
255	245	235	33**
260	250	240	34***
265	255	245	35****

Diesel Supplements

- * add 3 per cent if car runs solely on diesel
- ** add 2 per cent if car runs solely on diesel
- *** add 1 per cent if car runs solely on diesel
- **** maximum charge so no diesel supplement

Finding the approved CO₂ emissions figure

What is the approved CO₂ emissions figure?

Cars that are registered in the United Kingdom and in other European Community countries have to be submitted by their manufacturers or importers for a "type approval" test. The level of CO₂ emitted by the car is one of the factors reviewed in the course of the test. The approved CO₂ emissions figure for car benefit purposes is that which is recorded on the type approval certificate that summarises the results of the type approval testing procedure. The result of this test is available in various ways.

Note: For car benefit purposes the CO₂ emissions figure that applies at the date of first registration is set for the life of the car.

Cars first registered in the UK from 1 March 2001

The approved CO₂ emissions figure will be shown on the new Vehicle Registration document (V5).

Cars first registered 1 January 1998 to 28 February 2001

The manufacturer should provide this information if asked to. Although manufacturers are entitled to charge a small fee, some manufacturers are happy to provide this information free of charge. Under an agreement with the Inland Revenue, the Society of Motor Manufacturers and Traders (SMMT) is providing a CO₂ enquiry service free of charge on the Internet - at www.smmmt.co.uk - for cars first registered from January 1998 to February 2001. At the time of drafting this database covers the period to December 1999. But it will be updated shortly after the end of February 2001 to cover the whole of the period 1 January 1998 to 28 February 2001.

The Vehicle Certification Agency (VCA) supplies CO₂ (and other) emissions data in two formats

- On its website at www.vca.gov.uk
- In a booklet that it publishes twice a year and that can be obtained free of charge from:

Vehicle Certification Agency
1 The Eastgate Office centre
Eastgate Road
Bristol
BS5 6XX
Telephone number 0117 951 5151

The VCA figures relate to new cars currently on sale in the UK. You will not be able to use the internet database to find the approved CO₂ emissions figure for a car sold as new two years ago. However, the version of the VCA booklet that was current at the time a car was first registered or a printout from the internet website will provide a useful historical record.

What if the VCA and SMMT figures contradict each other?

The figures should normally be the same. There is no need to check both databases once you have identified the right year and model. However, if you do find a discrepancy, check that you have correctly identified the year and model details of the car in question (Remember the SMMT database is a historical record and the VCA database a current one). If after checking you find that there is a small discrepancy, then use the lower figure. If you find a large discrepancy, then contact your Inland Revenue office for advice.

Remember, for cars first registered 1 March 2001 and later the new car registration document (V5) will be the definitive source of the approved CO₂ emissions figure.

Supplement and discounts

The diesel supplement and the discounts for cleaner alternatives will only apply to cars first registered on 1 January 1998 or later.

Supplement to be waived for Euro 4 diesels

The 3% diesel supplement will be waived for cars that meet a European Community standard for cleaner cars called Euro 4. This standard will be compulsory for new cars sold after 2005, but there are expected to be a number of diesel cars that meet the standard well before that date. The new car registration document will show the Euro standard from March 2001. (We do not expect there to be any Euro 4 diesel cars on sale before that date).

Discounts

At the time of writing the discounts have not been finalised. But the Government announced its proposals for the discounts in the PreBudget Report in November 2000. The details will be confirmed in Regulations early in 2001, announced by press release and placed on the Inland Revenue website at www.inlandrevenue.gov.uk/cars/. The proposed discounts will be expressed as a percentage of the car's price and will reduce the CO₂ emissions based charge for cars that run on the following alternative fuels and technologies

- Electric cars – these are cars that are propelled solely by electricity, normally by way of a battery. Vehicles of this type are uncommon at present.
 - Fuel type "E" on the new version of form P46(Car)
 - Discount of 6% - so that in practice the tax charge for electric cars will be 9% of price of price of the car
- Hybrid petrol/electric cars - This is a new technology in which an internal combustion engine is combined with a battery electric traction system in what is called a "hybrid-electric" vehicle. It should be clear from the owner's manual or handbook if a car is hybrid electric. And it may also be clear from the new vehicle registration form for cars first registered from 1 March 2001. At present vehicles of this type are uncommon.
 - Fuel type "H" on the new version of form P46(Car)
 - Discount of 2% of price **plus** an additional discount of 1% of price for each full 20g/km that the CO₂ emissions figure is below the qualifying level for the minimum charge for the year.

- Liquefied Petroleum Gas (LPG) Vehicles
 - This includes cars that run on gas alone and Bi-fuel LPG/ petrol cars that have both gas and petrol tanks on board.
 - Cars that run on gas alone are rare, but are fuel type B on form P46(Car)
 - Discount of 1% of list price **plus** an additional discount of 1% of price for each full 20g/km that the CO₂ emissions figure is below the qualifying level for the minimum charge for the year.
 - Bi-fuel cars that have both gas and petrol tanks fall into three categories:
 - a) Those built by the manufacturer from January 2000 onwards to run on both gas and petrol. (This category also includes those post-production line conversions that are reflected in the type approval process)
 - Fuel type "B" on form P46(Car)
 - These cars will have approved CO₂ figures for both gas and petrol. But it is likely that only the (lower) gas figure will appear on the new vehicle registration form. The tax charge will be calculated using the list price and the car benefit percentage that applies to the gas CO₂ figure. That percentage will then be adjusted to take account of the discount.
 - Discount of 1% of list price **plus** an additional discount of 1% of price for each full 20g/km that the CO₂ emissions figure is below the qualifying level for the minimum charge for the year.
 - b) Those first registered before January 2000, and
 - c) Petrol-driven cars that are "retro-fitted", i.e. converted to use gas as well as petrol after the type-approval process
 - Both fuel type "C" on form P46(Car)
 - In both cases the tax charge will be calculated using the petrol CO₂ figure and the list price for the petrol only model of the car i.e. ignoring the additional or conversion cost of allowing the car to run on gas too.
 - Discount of 1% of list price for 'retro-fitted' cars. We would normally expect the conversion to have been carried out by a firm approved by the Powershift Register.

Cars with no approved CO₂ emissions data

- For cars with no approved CO₂ emissions, the percentage of the car's list price to be taxed will be determined using the car's engine size.
- One scale will apply for all cars registered before 1998; and another for the small number of cars registered from 1998 onwards without approved CO₂ emissions.

Engine Size (cc)	Pre 1998 car	1998 or later car
0 – 1,400	15 %	15%
1,401 – 2,000	22%	25%
2,001 and over*	32%	35%

** also including rotary engined petrol cars which have no cylinder capacity*