

Consultation on possible structures for a more environmentally friendly free fuel scale charge where employers provide free fuel for private use in a company car.

Issue

This tax year is the fourth of a five-year programme of annual increases in the income tax fuel scale charge announced in Budget 1998 to discourage the giving or receiving of free fuel for private use in a company car.

Following this programme of increases the Government is considering restructuring the charge from April 2003 to one based on exhaust emissions to make it more environmentally friendly.

The government wants a new system that would both help the environment and be easy for employers to implement and employees to understand.

Background

Where an employer provides free fuel for private use by an employee, who drives a car that is liable to a company car benefit charge, tax (payable by the employee) and Class 1A NICs (payable by the employer) are also due. The tax and NICs are calculated according to flat rate “scale charges”. The charges are “all or nothing” with any amount of free fuel being provided triggering a fuel scale charge for the tax year. The charges apply automatically unless the employee is required to make good to his employer, and does so, the full cost of any fuel provided for private use.

The fuel scale charge rates are currently based on the cylinder capacity of the car and whether it runs on petrol or diesel. For petrol cars there are presently three specified engine capacities and only two for diesel cars. There is no specific rate for alternative fuels such as gas or electric.

Recent changes to Vehicle Excise Duty (VED) and Company Car Tax System

Both the VED and the new company car tax systems have been reformed to make them dependent on the level of Carbon Dioxide (CO₂) emissions of the car (see Annex 1 for details). A new CO₂ based car VED system was introduced from March 2001 – the date that CO₂ emission details were first printed on new car registration documents. The new system, which has four CO₂ bands and is dependent on whether the car runs on alternative fuel, petrol or diesel, creates incentives to use cleaner cars.

The new company car tax benefit charge based on CO₂ emissions will be introduced from April 2002. The charge will be calculated as a percentage of the list price of the car, the appropriate percentage being based on the level of CO₂

emissions of the car. For example, the value of the car benefit, on which the employee will pay tax and the employer will pay Class 1A NICs, for a petrol car with CO₂ emissions of 170 g/km, would be 16 per cent of the list price of the car in tax year 2002/03.

Discounts will be given for alternatively fuelled cars such as gas and hybrid vehicles. This means that the percentage rate, used to calculate the car benefit charge for some cars which run on alternative fuels, will be less than the standard minimum rate of 15%. For example an electric car run solely on electricity will not emit CO₂ emissions and will attract a 6% discount on the 15% standard minimum and therefore the car benefit charge will be 9% of the list price of the car.

Possible New Structures for fuel scale charge

The Government has identified three possible options for restructuring the fuel scale charge to make it more environmentally friendly, in particular to better reflect the CO₂ and other environmental pollution produced by different cars. The possible structures, all related primarily to CO₂ emissions, follow the pattern of the new company car tax and car vehicle excise duty.

Option 1

To link the free fuel benefit charge directly to the level of the CO₂ emissions of the car.

The CO₂ emissions figure for the car, rounded down to the nearest 5 grams per kilometre (g/km) in line with the new company car tax, would be multiplied by a set amount to determine the free fuel benefit charge for the car.

To promote the movement to cleaner cars a lower multiplier could be set for cars with lower CO₂ emissions. A possible refinement would be a lower multiplier for low emission cars below 185g/km in line with lower Vehicle Excise Duty charges.

For example, for a Ford Mondeo 1.8 Zetec with CO₂ emissions of 185g/km (rounded down) the fuel scale charge would be calculated by multiplying 185 by a fixed amount ($185 * \text{£}X = \text{fuel scale charge}$).

Option 2

To link the charge directly to the percentage figure used to calculate the car benefit charge.

In this case, the percentage figure depends on the level of CO₂ emissions of the car and also takes account of supplements for diesels and discounts for alternative

fuels. The percentages for petrol and diesel range from a minimum of 15 to a maximum of 35 per cent. The percentage for alternative fuels and hybrid cars can be below 15 per cent with discounts.

Under the company car tax system the percentage figure is multiplied by the list price of the car to arrive at the tax charge. Under this option, the free fuel charge would use the same percentage figure and multiply it by some fixed amount to determine the free fuel benefit charge.

For example, a Ford Mondeo 1.8 Zetec with CO₂ emissions of 185g/km (rounded down) would have a company car tax percentage for 2003/04 of 21%. The fuel scale charge for 2003/04 would be calculated by multiplying the car tax rate 21% by a fixed amount ($21 * \text{£}Y = \text{fuel scale charge}$)

Option 3

The free fuel benefit charge would be structured in the same way as the Vehicle Excise duty system.

There would be four bands of CO₂ emissions – up to 150, 151 to 165, 166 to 185 and over 185g/km. The amount of fuel charge would vary according to whether the car runs on alternative fuel, petrol or diesel as well as the appropriate band for the CO₂ emissions of the car.

For example, a Ford Mondeo (petrol) 1.8 Zetec with CO₂ emissions of 185g/km (rounded down) would fall into the third band and the fuel scale charge would be the appropriate amount for a petrol car.

The Government would like to hear your views on the following questions.

1) Which of the 3 options do you prefer and why?

Environmental impact

The Government believes that the environmental impacts of these changes would be relatively minor but positive, further enhancing the anticipated environmental gains from the new company car tax system. It will provide some further incentives for company cars to be cars with relatively low levels of CO₂ emissions which should help reduce total levels of harmful emissions.

Introducing apportionment could help to reduce the numbers of company car drivers receiving free fuel for private use from their employers. Company car drivers who stop receiving such free fuel as a result of this may be less likely to do unnecessary private mileage in their company cars and more likely to use more environmentally-friendly modes of transport for their private journeys than would

otherwise have been the case. This could therefore help to reduce levels of congestion and harmful emissions from cars.

2) Which option do you think would have the biggest environmental impact?

Regulatory impact

We believe that any of these options would require less work by employers, thus reducing regulatory burden. This is because the fuel scale charges would be based on the levels of CO₂ emissions of the car and this information will also be used to work out the income tax and NICs for the benefits of the company cars themselves from April 2002 onwards. In order that we can confirm this belief and quantify any savings, we would be grateful for your views. We are particularly interested in estimates of time to be spent on your chosen option, not including time spent establishing the level of CO₂ emissions the car produces as you will need to do this anyway. It would also be helpful if you could tell us how it would compare with time spent operating the current system. (Further information on Regulatory Impact Assessments (RIA) can be found on the Inland Revenue website at: www.inlandrevenue.gov.uk/ria/index.htm)

3) What would be the administrative implications of each option for an employer and employees?

Cars without CO₂ emissions data.

There will be a need to retain a charging system for a reducing number of older cars with no approved CO₂ emissions figure. The simplest option would be to continue with a flat rate charge based on the cylinder capacity of the car. This would be similar to the car benefit charge for cars with no CO₂ emissions figure where the percentage of the car's price to be taxed depends on the cylinder capacity of the car.

4) Do you think this is the best option?

Apportionment

The current fuel scale charge is an all or nothing charge so that a single amount of free fuel in any tax year leads to imposition of the full charge for the year. This may deter employers from withdrawing free fuel and employees from refusing to accept further free fuel when it may be most appropriate to do so e.g. in the middle of the tax year.

5) Do you think it would be helpful if the Government were to allow the charge to be proportionately reduced where an employee stops receiving free fuel part way through the year?

6) Would this remove an obstacle that presently makes it unattractive for employees or employers to move away from providing or accepting free fuel during a financial year?

Please send your comments on all of the above by 8 February 2002 to Julia.Vinall@ir.gsi.gov.uk or by post to Julia Vinall, Personal Tax, Room 106, New Wing, Somerset House, Strand, LONDON, WC2R 1LB.

Individual responses may be made public when the Government responds to this exercise unless respondents specifically ask for them not to be made available.

Vehicle Excise Duty 2001/02

	A VED BAND	B VED BAND	C VED BAND	D VED BAND
CO ² Emission Figure (gm/km)*	Up t o 150	151-165	166-185	Over 185
Alternative fuel car	£90	£110	£130	£150
Petrol Car	£100	£120	£140	£155
Diesel Car	£110	£130	£150	£160

*g/km = grammes of CO² per kilometre travelled

Car benefit charges for cars with approved CO² emissions figure 2002/03 to 2004/05

CO ² emissions in grams per kilometre			Percentage of car's price to be 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% if car runs solely on diesel.
- ** Add 2% if car runs solely on diesel.
- *** Add 1% if car runs solely on diesel.
- **** Maximum charge, so no diesel supplement.