

# EMPLOYER-PROVIDED VANS

## A CONSULTATION DOCUMENT ISSUED BY THE INLAND REVENUE

Views on the options set out in this document for reforming the tax treatment of employer-provided vans are invited and should be sent to:

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(Please title e-mails "Employer-provided vans consultation")

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To arrive no later than **31 July 2003**.

*In accordance with the Inland Revenue's Code of Practice on consultation, once the outcome of the consultation is announced, we will make responses to consultations available, on request, unless any respondent has asked for his or her comments to be treated as confidential. If you wish for the whole of your comments, or your name and address, to be treated as confidential, please say so when responding.*

This document is available on the Internet at  
[http://inlandrevenue.gov.uk/consult\\_new/index.htm](http://inlandrevenue.gov.uk/consult_new/index.htm)

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## Executive Summary

The Government announced in Budget 2002 that it would review the tax and National Insurance treatment of employer-provided vans. The Government believes, for a number of reasons, that the present system is in need of reform. It is too complicated; there are no incentives for cleaner vans; it does not reflect modern working practices, and the flat rate charge is not a proper reflection of the economic benefit that right of private use of a van confers. Over the last ten years the availability, variety and use of employer-provided vans has grown more than tenfold. The recent successful reform of the company car tax system has seen the introduction of an environment-based tax that is helping to reduce carbon dioxide emissions. The Government believes that environmental incentives, such as in the company car tax charge, should apply for company vans. This consultation document therefore sets out the Government's thinking on how the existing van charge could be reformed based on three key objectives:

- to **simplify** the arrangements for calculating the charge for employer-provided vans in order to reduce the regulatory burden on employers;
- to take into account the **environmental impact** of vans;
- to ensure a **fair charge** for the benefit gained by an employee from the private use of a company van, taking account of the new regime for the taxation of company cars.

This consultation document includes reform proposals that the Government believes form the starting point for achieving its objectives. The key proposals are:

1. A system that identifies availability for private use (while minimising fraud risk), but allows for the fact that (unlike company cars) there may be a requirement of employment for vans to be kept at home without any other private use being made of them.

2. The retention of a scale charge but making it easier for employers to operate, removing the requirement for employers to make complex calculations for shared vans.
3. Incentives for cleaner, more fuel-efficient company vans to further enhance the anticipated environmental gains from the new company car tax system.
4. Introduction of a fuel benefit charge where there is private use of a company van and the employer provides fuel for private use.

The full proposals are set out on pages 9 to 15. The shape of a reformed system will be informed by the responses received. Alongside the consultation the Inland Revenue will consider in more detail the feasibility of the options and the benefits of the environmental incentives proposed.

## **Introduction**

A scale charge that taxes the benefit of private use of an employer-provided van has been in place since 1993. The current benefit charge that arises where a van is available exclusively for an employee's private use is £500 (or £350 for a van that is 4 or more years old at the end of the tax year). This charge has remained unchanged since its introduction. The charge also includes any private fuel provided. Tax is paid on the benefit charge at the employee's marginal rate. *The current legislation for the taxation of employer-provided vans is reproduced at Annex 1.*

It is the Government's view that the current charge is out-dated and in many situations does not reflect the proper value of the benefit derived from the private use of a van. Improvements in design and technology over the last decade have led to a real diversity in vans, ranging from the purely functional to multi-purpose 'lifestyle' vehicles. And improvements in functionality, performance and comfort have led to a steady growth in the commercial vehicle industry.

The Government is concerned about the administrative burden on employers in operating the existing legislation where vans are shared by two or more employees. In these cases the charge is divided between all participating employees. If more than one shared van is provided there is generally a maximum charge of £500 to each employee. But there is no restriction if an employee has a mixture of shared and exclusive vans. Employees can also opt for a £5 per day charge instead of the flat rate charge. The calculations an employer may have to make in such circumstances are complex and out of proportion to the resulting individual tax charge. The Government accepts the case for simplifying these rules to remove the regulatory burden that they currently impose.

Reforms to the company car benefit-in-kind charge were announced in Budget 2000 and the new system was introduced from April 2002. The new company car system rewards cleaner and more fuel-efficient cars by linking the charge to the

car's carbon dioxide (CO<sub>2</sub>) emissions. The reform was introduced to help tackle global warming by saving up to one million tonnes of carbon per year by the end of the decade. The Government considers that the charge for employer-provided vans should follow the lead of the company car reform in helping to protect the environment. The current scale charge contains no incentives to use cleaner vans. Older vans that often have higher emissions are charged at a lower rate than newer (cleaner) vans. This does not send the appropriate environmental message or encourage the use of cleaner vans.

The company car tax system also includes incentives for drivers to choose cars that run on alternative fuels which are less harmful to the environment. There is a waiver of the supplement on the company car percentage charge for the cleanest diesel cars (compliant with Euro IV standards) and discounts for other environmentally friendly cars, such as those that run on electricity or a combination of petrol and gas or electricity. The Government wants to consider, as part of this consultation, the option of a van charge based on Euro emission standards when these become available.

The charge for employer-provided vans cannot immediately mirror the company car tax system as there are not currently published CO<sub>2</sub> emission levels for vans. But the environment principles can be followed. The Government is consulting on whether free fuel provided with a van for an employee's private use should be separately taxed as a benefit as with the company car tax system.

The Government also recognises that there are issues of fairness and equity with the existing charge. Many employees receive very little benefit from the private use of a company van. Often employees are contractually bound to take the van home at night so they can go straight to a job the next morning. In many cases company van drivers are contractually prohibited from using their vans for private journeys other than travelling to work.

This consultation document explores how employer-provided vans can be distinguished between those whose availability for private use is restricted to the sort of circumstances described above (where the benefit derived by the employee is limited to home to work travel) and those made available for more general private use (a much more valuable benefit). The aim of the reform is a simple system, but one that produces a fair charge commensurate with the actual benefit the van provides. Differentiating availability for private use in this way is a variation on the 'any availability' approach of the company car tax charge, but one that the Government believes may be better suited to company vans.

It is important that the Government is able to test the objectives for this major reform of the tax and National Insurance treatment of employer-provided vans and to help we ask for views throughout the consultation document. This is both to test the direction of the reform and the options proposed. There are also additional specific questions that will help build on our information about employer-provided vans.

In developing the new tax and National Insurance system for employer-provided vans, the Inland Revenue is likely to need to gather additional information from employers to make sure that it is able to get employees' tax codes adjusted in time. This information will depend on the shape of the final system. The Government would also like your views on how we can achieve this transition.

## **Policy objectives for a reformed employer provided van tax charge**

The Government believes that the new system should be one:

- that is simple to understand and easy for employers to operate;
- that has environmental benefits;
- that takes into account the type of private use made of the van;
- builds on the reform of the company car tax charge.

**Proposals that the Government thinks could achieve the objectives in each of these areas follow. There is also a series of questions on which the Government would welcome your views. Some are more detailed than others - we would like responses to as many as possible.**

## **Proposals for Consultation**

### **1. PRIVATE USE OF A VAN**

To keep things simple the Government proposes the retention of a **scale charge** on the availability of a van for an employee's private use. This is easy for employers to operate and avoids the need for them to make complex calculations. We also propose **different levels of charge** according to the level of private benefit to the individual.

A lower scale charge could apply where the private benefit from home to work travel is incidental to the business need for using the van. This approach could allow a simple system to be put in place that would reduce administration costs for employers, while minimising fraud risks. A lower charge could apply where:

- Private use, other than home to work journeys where the employee is required to take the van home, is contractually prohibited;
- Where private use is restricted to home to work and a van is shared between a number of employees;
- Vans are "permanently suitably equipped" for work purposes, e.g. are full of racks of tools and where there is little or no scope for using the van for anything else.

While this would involve slightly more work than a single flat rate scale charge it could still be relatively simple and yet be fairer than a standard charge that does not take into account the level of benefit an employee enjoys. It would also be capable of reflecting other objectives e.g. environmental benefits.

### **Questions for consultation**

1. Do you agree that retention of a scale charge would help to keep things simple?

2. Do you agree that the level of charge should vary according to the level of private benefit, including a lower charge where there is no private travel other than where work to home travel by van is obligatory?
3. If so, what tests could be applied to determine the level of private benefit and how would these be enforced?

**There are further questions below that have been included to help the Government to decide the extent and level of the new employer-provided vans benefit charge.**

- (a) To what extent are employees required by their employers to take company vans home at night?
- (b) To what extent are vans made available to employees for private use other than home to work travel?
- (c) To what extent would the numbers of employees allowed to use company vans for private use (other than home to work travel) be reduced if the benefit charge was raised and some employers stopped providing this benefit?
- (d) To what extent is private use of vans contractually prohibited at present and how is private use currently monitored by employers?
- (e) How much private mileage is done in vans that are not shared – and is that private mileage restricted or unlimited?

## **2. SHARED VANS.**

It is estimated that approximately 40% of employees who pay tax on a van benefit charge have private use of a shared van.

The Government believes that the current legislative definition of a shared van is right, though we are happy to consider alternative suggestions. However, the Government considers that the charging provisions for shared vans should be changed to remove the complexity and administrative burden on employers. This would be de-regulatory and save employers time and money by allowing them to adopt simpler procedures for record keeping than are currently available.

### **Questions for consultation**

4. Do you agree that the current shared vans definition should be retained?
5. Do you agree that the charging provisions for shared vans should be simplified?

### **Further questions have been included below to help inform the calculation of compliance costs of a new charge.**

- (f) Of shared vans, what proportion are available for private use but are used only for travel between home and work?
- (g) How much time is spent by employers calculating current benefits on shared vans?
- (h) What is the cost to employers of doing the shared vans benefit calculations?
- (i) At what level are these calculations done in your organisation?

### **3. ENVIRONMENTAL BENEFITS**

There is a strong case for varying the scale charge to take account of environmental factors. This would complement reforms already undertaken regarding company cars, fuel scale charges (where fuel is provided by employers for private use) and Vehicle Excise Duty. However as there is currently no mechanism for recording CO<sub>2</sub> emissions of vans there is no immediate scope to develop an environmentally friendly approach that is based on CO<sub>2</sub> emissions to mirror the company car tax system. There may, however, be various ways of taking account of environmental factors in a new system:

- Remove the current reduction in the scale charge for **older vans**. Currently there is a reduction in the chargeable benefit where the van is more than 4 years old. Approximately 35% of employees qualify for this reduction. Simply removing this reduction for older, more polluting vans would be a move in the right direction.
- Having a higher scale charge for older vans. This could encourage employers to obtain newer company vans that are less harmful to the environment.
- A charge based on **Euro emission standards**; having a different level of charge for vans meeting Euro IV standards. Euro IV standard will be mandatory for all new vans introduced from 2006. The effects of any premium for vans that do not reach this standard would:
  - Increase the incentive for employers to obtain company vans meeting the Euro IV standards rather than other new vans; and
  - Increase the incentive to replace vans more quickly both before and after 2006. This would lead to some environmental benefits as generally the new vans are likely to produce lower levels of harmful emissions than the older vans they replace.

- **A reduction for vehicles that run on alternative fuels** such as Liquid Petroleum Gas (LPG) Or Compressed Natural Gas (CNG). This would help to encourage the development of new technologies with a positive environmental impact and align the van benefit charge with the reductions given in the company car tax system.

### **Questions for consultation**

6. Do you agree that the charge should reflect environmental objectives which will align the van benefit charge principles with the company car benefit charge?
7. Do you agree that the current reduction for older vans should be abolished?
8. Would a higher scale charge for older vans encourage earlier replacement or influence purchase decisions?
9. Do you agree that the charge should be based on Euro emission standards?
10. Would a different level of charge for Euro IV and non-Euro IV vans encourage earlier replacement or influence purchase decisions and therefore increase take up of Euro IV vans?
11. Would a reduced charge for vehicles that run on alternative fuels encourage employers to purchase these vehicles?
12. What level of reduction would be suitable for different alternative fuels, and what are likely to be the resulting extra number of alternatively fuelled vans?

#### **4. FUEL BENEFIT CHARGE**

Unlike employer provided cars, employer provided vans currently have no separate fuel benefit charge. There are indications that this may be encouraging a switch from company cars into some types of vans which are suitable for private use. Also if a van with free fuel is available for private use it is more likely that private mileage will be higher than for van where fuel has to be paid for. The provision of free fuel is an additional benefit and it is reasonable to make an additional charge for it. People will usually think more about the private journeys that they make if they have to pay for their own fuel.

The introduction of a fuel benefit charge would further align the van benefit charge with the company car tax charge making it less advantageous to opt for a van as a cheaper alternative to a company car. The Government believes that a van fuel charge, applying where free fuel is provided alongside the availability of private use, would be fairer. Additionally the fuel charge could be graded based upon the level of the van charge to take into account:

- the private use of the van
- the environmental impact of the van
- the need to keep the charge simple to minimise record-keeping requirements

As with cars employees with private use of vans would be able to avoid this van fuel charge by not accepting fuel paid for by their employer for their private travel. The simplest way would be for van drivers to repay their employer for any private miles done in their van. And as with the company car fuel charge, van drivers would be able to give up employer provided fuel at any point in the year and be charged proportionately.

#### **Questions for consultation**

13. Do you agree that introducing a fuel benefit charge would produce a fairer system better aligned with the company car tax system?
14. If a fuel benefit charge is introduced to what extent will this discourage employers from providing free fuel for private use?
15. If a fuel benefit charge is introduced to what extent will this discourage employees from accepting free fuel for private use?
16. Do you agree that the fuel benefit charge should be graded to account for the environmental impact of the van, for example tied to Euro IV compliance?

**The following questions have been included to help us examine the extent and level of any possible new fuel scale charge for company van drivers who receive free fuel for private use.**

- (j) What percentage of van drivers receive fuel for private use other than home to work travel?
- (k) How is private use of free fuel monitored by employers?
- (l) How much private mileage is done by people receiving free employer-provided fuel for private use in their company vans?

**The views and suggestions received in this consultation process will play an important part in decisions that ministers take. The questions set out in the paper, repeated below, are to stimulate views on the key changes proposed to the existing arrangements. If you have views or ideas on any other aspect of the reforms not covered here, these will be welcomed.**

## Summary of consultation questions

1. Do you agree that retention of a scale charge would help to keep things simple?
2. Do you agree that the level of charge should vary according to the level of private benefit, including a lower charge where there is no private travel other than where work to home travel by van is obligatory?
3. If so, what tests could be applied to determine the level of private benefit and how would these be enforced?
4. Do you agree that the current shared vans definition should be retained?
5. Do you agree that the charging provisions for shared vans should be simplified?
6. Do you agree that the charge should reflect environmental objectives which will align the van benefit charge principles with the company car benefit charge?
7. Do you agree that the current reduction for older vans should be abolished?
8. Would a higher scale charge for older vans encourage earlier replacement or influence purchase decisions?
9. Do you agree that the charge should be based on Euro emission standards?
10. Would a different level of charge for Euro IV and non-Euro IV vans encourage earlier replacement or influence purchase decisions and therefore increase take up of Euro IV vans?
11. Would a reduced charge for vehicles that run on alternative fuels encourage employers to purchase these vehicles?
12. What level of reduction would be suitable for different alternative fuels, and what are likely to be the resulting extra number of alternatively fuelled vans?
13. Do you agree that introducing a fuel benefit charge would produce a fairer system better aligned with the company car tax system?

14. If a fuel benefit charge is introduced to what extent would this discourage employers from providing free fuel for private use?
15. If a fuel benefit charge is introduced to what extent would this discourage employees from accepting free fuel for private use?
16. Do you agree that the fuel benefit charge should be graded to account for the environmental impact of the van, for example tied to Euro IV compliance?

### **Summary of additional questions**

- (a) To what extent are employees required by their employers to take company vans home at night?
- (b) To what extent are vans made available to employees for private use other than home to work travel?
- (c) To what extent would the numbers of employees allowed to use company vans for private use (other than home to work travel) be reduced if the benefit charge was raised and some employers stopped providing this benefit?
- (d) To what extent is private use of vans contractually prohibited at present and how is private use currently monitored by employers?
- (e) How much private mileage is done in vans that are not shared – and is that private mileage restricted or unlimited?
- (f) Of shared vans, what proportion are available for private use but are used only for travel between home and work?
- (g) How much time is spent by employers calculating current benefits on shared vans?
- (h) What is the cost to employers of doing the shared vans benefit calculations?
- (i) At what level are these calculations done in your organisation?
- (j) What percentage of van drivers receive fuel for private use other than home to work travel?

(k) How is private use of free fuel monitored by employers?

(l) How much private mileage is done by people receiving free employer-provided fuel for private use in their company vans?

**The address for responses is on page 1 of this paper.**

**Income Tax (Earnings and Pensions) Act 2003, Part 3 Chapter 6**  
**Taxable benefits: cars, vans and related benefits (extracts)**

**114 Cars, vans and related benefits**

- (1) This Chapter applies to a car or a van in relation to a particular tax year if in that year the car or van
  - (a) is made available (without any transfer of the property in it) to an employee or a member of the employee's family or household,
  - (a) is so made available by reason of the employment (see section 117), and
  - (b) is available for the employee's or member's private use (see section 118).
- (2) Where this Chapter applies to a car or van—
  - (a) sections 120 to 148 provide for the cash equivalent of the benefit of the car to be treated as earnings,
  - (b) sections 149 to 153 provide for the cash equivalent of the benefit of any fuel provided for the car to be treated as earnings, and
  - (c) sections 154 to 166 provide for the cash equivalent of the benefit of the van to be treated as earnings.
- (3) This Chapter does not apply if an amount constitutes earnings from the employment in respect of the benefit of the car or van by virtue of any other provision (see section 119).
- (4) The following provisions of this Chapter provide for further exceptions—
  - section 167 (pooled cars);
  - section 168 (pooled vans);
  - section 169 (car available to more than one member of family or household employed by same employer).

**Vans: benefit treated as earnings**

**154 Benefit of van treated as earnings**

If this Chapter applies to a van in relation to a particular tax year, the cash equivalent of the benefit of the van is to be treated as earnings from the employment for that year.

**155 Method of calculating the cash equivalent of the benefit of a van**

- (1) The method of calculation of the cash equivalent of the benefit of a van for a tax year depends upon whether the van is a shared van for the whole or any part of that year.
- (2) If the van is not a shared van for the whole or any part of the year, the cash equivalent of the benefit of the van for the year is the value of exclusive availability calculated in accordance with section 157.
- (3) If the van is a shared van for the whole of the year, the cash equivalent of the benefit of the van for the year is the value of shared availability calculated in

accordance with section 160.

This is subject to subsection (7) where more than one shared van is available to an employee.

- (4) If the van is a shared van for only part of the year the cash equivalent of the benefit of the van for the year is the total of—
  - (a) the value of exclusive availability calculated in accordance with section 157 (for the period when it is not a shared van), and
  - (b) the value of shared availability calculated in accordance with section 160 (for the period when it is a shared van).

This is subject to subsection (7) where more than one shared van is available to an employee.

- (5) The value of shared availability calculated in accordance with section 160 under section 161 (normal calculation) takes account of—
  - (a) the shared van, and
  - (b) where that van is made available by the employer, any other vans made available by the employer (whether or not to the employee or a member of the employee's family or household) which are shared vans for the whole or any part of the tax year in question.
- (6) The value of shared availability calculated in accordance with section 160 under section 164 (alternative calculation) takes account of—
  - (a) the shared van, and
  - (b) where that van is made available by the employer, any other vans made available by the employer to the employee or a member of the employee's family or household which are shared vans for the whole or any part of the tax year in question.
- (7) Accordingly, if more than one shared van, which is made available by the same employer, is available to an employee in a tax year the total of the cash equivalents in respect of those vans is calculated by—
  - (a) taking the value of shared availability calculated once in accordance with section 160, and
  - (b) if any of those vans is a shared van for only part of the year, adding the value of exclusive availability in respect of each of those vans calculated in accordance with section 157.
- (8) This section is subject to section 166 (limit of cash equivalent).

#### **156 Meaning of "shared van"**

- (1) For the purposes of sections 155 to 165 a van is a shared van for a period if condition A or B is met.
- (2) Condition A is met if throughout the period the van is available concurrently to more than one employee of the same employer.
- (3) Condition B is met if—
  - (a) the period is one throughout which the van is available to different employees of the same employer (a "shared period"), and
  - (b) the circumstances are such that the employee or employees to whom the van is available at any given time in the period are not necessarily the same as those to whom it is available at any other given time in the period.
- (4) But if the van is available to only one employee for a period exceeding 30 days

- (an “exclusive period”)—
- (a) the exclusive period shall not count towards any period that would otherwise be a shared period,
  - (b) the shared period is to be treated as ending when the exclusive period begins, and
  - (c) a further shared period may begin after the end of the exclusive period.
- (5) If a van is a shared van for part of a day, it is to be treated for the purposes of this section as shared throughout that day.

## **Vans: value of exclusive availability**

### **157 Value of exclusive availability**

The value of exclusive availability is calculated as follows—

#### *Step 1*

Determine the age of the van.

#### *Step 2*

If the age of the van is less than 4 years at the end of the tax year in question, the basic value of the van for the year is £500.

In any other case, the basic value of the van for the year is £350.

#### *Step 3*

Make any deduction from the basic value of the van under section 158 for any periods when the van was unavailable or a shared van.

The resulting amount is the provisional sum.

#### *Step 4*

Make any deduction from the provisional sum under section 159 in respect of payments by the employee for the private use of the van.

The result is the value of exclusive availability.

### **158 Deduction for periods of unavailability or shared use**

- (1) A deduction is to be made from the basic value of the van calculated under step 2 of section 157 if there are any excluded days during the tax year in question.
- (2) In this section an “excluded day” means a day on which—
  - (a) the van is unavailable (see subsection (4)), or
  - (b) the van is a shared van.
- (3) The amount of the deduction is given by the formula—

$$\frac{E}{Y} \times B$$

where—

E is the number of excluded days in the year,

Y is the number of days in the year, and

B is the basic value of the van calculated under step 2 of section 157.

- (4) For the purposes of this section a van is unavailable on any day if the day—

- (a) falls before the first day on which the van is available to the employee,
- (b) falls after the last day on which the van is available to the employee, or
- (c) falls within a period of 30 days or more throughout which the van is not available to the employee.

### **159 Deduction for payments for private use**

- (1) A deduction is to be made from the provisional sum calculated under step 3 of section 157 if, as a condition of the van being available for the employee's private use, the employee—
  - (a) is required in the tax year in question to pay (whether by way of deduction from earnings or otherwise) an amount of money for that use, and
  - (b) makes such payment.
- (2) If the amount paid by the employee in respect of that year is equal to or exceeds the provisional sum, the provisional sum is reduced so that the value of exclusive availability is nil.
- (3) In any other case the amount paid by the employee in respect of the year is deducted from the provisional sum in order to give the value of exclusive availability.
- (4) If the van is a shared van for any part of the tax year in question, the reference in subsection (1) to the employee's private use in that year is to be read as a reference to the employee's private use in that part of the year when the van is not a shared van.
- (5) In this section any reference to the van being available for the employee's private use includes a reference to the van being available for the private use of a member of the employee's family or household.

### **Vans: value of shared availability**

#### **160 Value of shared availability**

The value of shared availability is calculated under—

- (a) section 161, or
- (b) section 164 where the employee makes a claim for that section to apply.

#### **161 Value of shared availability: normal calculation**

- (1) The value of shared availability is calculated as follows—

##### *Step 1*

Identify the van or vans involved in the calculation. They are—

- (a) the shared van, and
- (b) where that van is made available by the employer, any other vans made available (whether or not to the employee or a member of the employee's family or household) by the same employer which are shared vans for the whole or any part of the tax year in question.

##### *Step 2*

Determine whether the employee is a participating employee within the meaning of section 162.

If the employee is not, then the value of shared availability is nil.

*Step 3*

Determine the total number of participating employees within the meaning of section 162.

*Step 4*

Find the basic value of the van for the year under section 163 or, where more than one van is involved, the basic value of each of those vans for the year under that section.

*Step 5*

Calculate the reckonable amount which is given by the formula—

$$\frac{BV}{PE}$$

where—

BV is the basic value of the van or, where more than one van is involved, the total of the basic values of each of those vans, and  
PE is the total number of participating employees.

*Step 6*

If the reckonable amount exceeds £500, the provisional sum is £500.  
In any other case, the provisional sum is the reckonable amount.

*Step 7*

Make any deduction from the provisional sum under section 165 in respect of payments by the employee for the private use of the van or vans involved.

The result is the value of shared availability.

- (2) The calculation is made under this section in relation to a participating employee regardless of—
- (a) the number of vans involved which are available to the particular employee,
  - (b) the fact that a particular van involved is or is not available to, or used by, the employee, or
  - (c) the extent to which a particular van involved is available to, or used by, the employee.

**162 Shared van: meaning of “participating employee”**

- (1) If only one van is involved, an employee is a participating employee for the purposes of section 161 if—
- (a) the van is available to the employee for the employee’s private use while it is a shared van, and
  - (b) the employee makes private use of it at least once while it is a shared van.
- (2) If more than one van is involved, an employee is a participating employee for

the purposes of section 161 if—

- (a) one of the vans is available to the employee for the employee's private use while it is a shared van, or
  - (b) some or all of the vans are available to the employee for the employee's private use while they are shared vans, and the employee makes private use of at least one of the vans involved while it is shared van.
- (3) In this section—
- (a) any reference to a van being available for an employee's private use includes a reference to the van being available for the private use of a member of the employee's family or household, and
  - (b) any reference to an employee making private use of a van includes a reference to a member of the employee's family or household making private use of it.

### **163 Shared van: basic value**

(1) The basic value of a shared van is calculated as follows—

#### *Step 1*

Determine the age of the van.

#### *Step 2*

If the age of the van is less than 4 years at the end of the tax year in question, the interim value of the van is £500.

In any other case, the interim value of the van is £350.

#### *Step 3*

Make a deduction from the interim value if there are any excluded days during the tax year in question.

The amount of the deduction is given by the formula—

$$\frac{E}{Y} \times IV$$

where—

*E* is the number of excluded days in the year,

*Y* is the number of days in the year, and

*IV* is the interim value of the van.

The result is the basic value of the van for the year.

(2) In this section an "excluded day" means a day on which—

- (a) the van is not a shared van, or
  - (b) the van is incapable of use.
- (3) For the purposes of this section a van is to be treated as incapable of use on any day if the day falls within a period of 30 days or more throughout which the van is incapable of being used at all.

### **164 Value of shared availability: alternative calculation**

(1) This section applies if the employee makes a claim for this section to apply instead of section 161.

(2) The value of shared availability is calculated as follows—

*Step 1*

Identify the van or vans involved in the calculation. They are—

- (a) the shared van, and
- (b) where that van is made available by the employer, any other vans made available by the same employer to the employee or a member of the employee's family or household which are shared vans for the whole or any part of the tax year in question.

*Step 2*

Determine the number of relevant days for the van, or where more than one van is involved, for each of those vans.

*Step 3*

Calculate the provisional sum which is given by the formula—  
 $RD \times £5$

where RD is the number of relevant days for the van or, where more than one van is involved, the total of the number of relevant days for each of those vans.

*Step 4*

Make any deduction from the provisional sum under section 165 in respect of payments by the employee for the private use of the van or vans involved.

The result is the value of shared availability.

- (3) For the purposes of this section a relevant day is a day—
  - (a) which falls in the tax year in question, and
  - (b) during which (or during part of which) the employee or a member of the employee's family or household makes private use of the van concerned while it is a shared van.
- (4) For the purposes of section 95 of TMA 1970 (incorrect return etc.) a claim under this section is to be treated as a claim for relief.

**165 Deduction for payments for private use**

- (1) A deduction is to be made from the provisional sum calculated under step 6 of section 161(1) or step 3 of section 164(2) if, as a condition of the van or vans involved being available for the employee's private use, the employee—
  - (a) is required in the tax year in question to pay (whether by way of deduction from earnings or otherwise) an amount of money for that use, and
  - (b) makes such payment.
- (2) If the relevant sum in respect of that year is equal to or exceeds the provisional sum, the provisional sum is reduced so that the value of shared availability is nil.
- (3) In any other case the relevant sum in respect of the year is deducted from the provisional sum in order to give the value of shared availability.
- (4) The relevant sum is found by—

- (a) taking for any van involved the amount paid by the employee as a condition of it being available for the employee's private use in respect of the period when it is a shared van in the year concerned, and
  - (b) where more than one van is involved, adding together all the amounts found under paragraph (a).
- (5) In this section any reference to a van being available for the employee's private use includes a reference to the van being available for the private use of a member of the employee's family or household.

**Vans: limit of cash equivalent**

**166 Vans: limit of cash equivalent**

If—

- (a) the cash equivalent of the benefit of vans to an employee for a tax year would (apart from this section) total more than £500, and
  - (b) no more than one of the vans is available to the employee for the employee's private use, or the private use of a member of the employee's family or household, at any one time in the year,
- the cash equivalent of the benefit of the vans to the employee for the year is to be £500.

**Code of Practice on Written Consultation:  
Consultation criteria**

1. Timing of consultation should be built into the planning process for a policy (including legislation) or service from the start, so that it has the best prospect of improving the proposals concerned, and so that sufficient time is left for it at each stage.
2. It should be clear who is being consulted, about what questions, in what timescale and for what purpose.
3. A consultation document should be as simple and concise as possible. It should include a summary, in two pages at most, of the main questions it seeks views on. It should make it as easy as possible for readers to respond, make contact or complain,
4. Documents should be made widely available, with the fullest use of electronic means (though not to the exclusion of others), and effectively drawn to the attention of all interested groups and individuals.
5. Sufficient time should be allowed for considered responses from all groups with an interest. Twelve weeks should be the standard minimum period for a consultation.
6. Responses should be carefully and open-mindedly analysed, and the results made widely available, with an account of the views expressed, and the reasons for decisions finally taken.
7. Departments should monitor and evaluate consultations, designating a consultation co-ordinator who will ensure the lessons are disseminated.

We confirm that, where possible, these consultation criteria have and will continue to be followed.

If you have any complaint about any element of the consultation process leading from the issue of this document, please contact Julie Skinner, Inland Revenue, New Wing, Somerset House, Strand, London, WC2R 1LB. Or you can contact her by telephone (020 7438 6302), fax (020 7438 6472) or by e-mail at [julie.skinner@ir.qsi.gov.uk](mailto:julie.skinner@ir.qsi.gov.uk).

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Inland Revenue Visitors Information Centre  
Ground Floor, South West Wing, Bush House, Strand, London, WC2B 4RD  
This paper can be accessed on the Internet at:  
[http://www.inlandrevenue.gov.uk/consult\\_new/index.htm](http://www.inlandrevenue.gov.uk/consult_new/index.htm)

## **Partial Regulatory Impact Assessment**

### **Employer-Provided Vans**

#### **Introduction**

1. The Government plans to implement a new system for taxing the benefit of employer-provided vans that are available for private use. The Chancellor of the Exchequer announced in Budget 2002 that the Government would review the tax and National Insurance treatment of employer-provided vans. The attached consultation document sets out the Government's thinking on how the existing system could be reformed to take into account environmental benefits, fairness and modern working methods.
2. A scale charge that taxed the benefit of private use of an employer provided van was first introduced in 1993.

#### **Purpose and intended effect**

3. A new system should be one
  - that is simple to understand and easy for employers to operate;
  - that has environmental benefits;
  - that takes into account the type of private use made of the van;
  - follows on from our experience of the reform of the company car tax charge.

#### **Risks**

4. The Inland Revenue does not foresee any significant risks associated with the introduction of a new employer provided vans charge. However one risk is that it may prove difficult to obtain sufficient information from employers in advance of the start of the new system that will be needed to issue accurate coding

notices to employees that have a van benefit charge. This could result in some employees having an incorrect van benefit charge in their coding for the start of the new system.

## **Options**

5. The Inland Revenue is consulting on a number of options for restructuring the employer provided van charge. The options, together with detailed questions relating to each option are set out in the attached consultation document.

## **Benefits**

### Environmental Impact

6. The environmental impacts of the proposals for a new employer provided van charge aim to enhance the anticipated environmental gains from the new company car tax by providing financial incentives for employers to choose vans with relatively low levels of emissions. Abolition of the reduction in the scale charge for vans over four years old and incentives for employers to choose vans which meet Euro IV standards or run on Liquid Petroleum Gas or Compressed Natural Gas would help to reduce levels of carbon dioxide emissions and local air pollutants produced by company vans.
7. A further enhancement is that such proposals would deter company car drivers from choosing to drive a van such as a luxury lifestyle vehicle which tend to have much higher CO<sub>2</sub> emissions than an average company car.
8. The option of introducing a fuel scale charge for company vans would lead to a decrease in the number of company van drivers receiving free fuel for private use. This would therefore lead to a decrease in the amount of private mileage done by van drivers thus helping to reduce levels of harmful emissions and road congestion.

## **Policy costs**

9. The proposals set out in the consultation document would have offsetting effects. Where there is no private benefit other than home to work travel a lower charge has been proposed, which may result in an Exchequer cost. However for others, where the private use of a van is substantial a higher van benefit charge can be expected, and perhaps a new fuel benefit charge. These changes may result in Exchequer yield. But this will, of course, depend on the exact reforms adopted following consultation. Some questions have been included in the consultation document to help inform the calculation of Exchequer effects.

### **Compliance Cost Effects**

10. A key feature of any new charge will be that it is simple to understand and easy for employers to operate saving employers time in administering the charge. Reducing administration will lead to fewer errors; and it will be easy for employees to understand.

11. There will be two types of impacts on employers' compliance costs which will result from the introduction of a new structure for the employer provided vans charges. They are:

- a) non-recurring compliance costs which will occur when the new structure is first introduced and
- b) recurring changes in the compliance costs which employers face in future years as a result of a new structure being in place.

### **Implementation Costs**

12. As with any change to the tax system there will be some one-off compliance costs associated with the introduction of the reforms. These one-off compliance costs will occur due to van drivers and their employers needing to gain an understanding of the changes for example from reading Inland Revenue guidance about them. They can also arise from employers needing to make

changes to administrative and IT systems to accommodate the new arrangements. These changes should not be very onerous. It should be fairly straightforward to amend systems to record necessary information related to things such as whether the vans meet Euro IV standards, whether the employee receives free fuel for private use and whether the vans are available for private use other than for journeys between home and work etc when necessary. There will be some implementation costs for software companies associated with making changes to payroll software to accommodate the structure of the new company van tax system.

13. The Inland Revenue estimates that total one-off compliance costs will be negligible given the numbers of employers providing and employees receiving taxable van benefits. This conclusion was arrived at using estimates that in 2000/2001 (the latest year for which data is currently available) there were around 220,000 van drivers paying tax on van benefits-in-kind declared to the Inland Revenue on P11D returns and around 40,000 employers providing such vans.

### **Recurring Costs**

14. The proposed simplifications to the rules for shared vans should lead to reduced compliance costs associated with calculating the tax charges of benefits-in-kind of shared vans made available for private use for employees and reporting them to the Inland Revenue for many employers. The abolition of the reduced charge for vans over 4 years old would lead to some reductions in compliance costs associated with employers keeping records of the ages of their vans for company van tax purposes.
15. The increase in the number of different categories of charges could slightly increase the compliance cost burdens associated with this for some employers. In some instances employers might need to keep records of the following extra things for company van tax purposes:

- Whether a company van driver is able to use the van for private journeys other than those between home and work. Many employers are likely to have a general policy covering all employees on whether this is allowed or not so this is not likely to be at all onerous in most cases.
- Whether the drivers receive free fuel for private use or not. Again many employers may simply apply a general policy on this covering all of their van drivers.
- Whether the vans are “specially equipped” or not.

The Inland Revenue estimates that the overall effect of the reforms on recurring compliance costs for employers will be negligible.

### **Other costs/impacts**

#### **Equality Impact**

16. The large majority of company van drivers are men. Reform of the company van tax rules and the subsequent changes in tax liabilities for some van drivers will therefore disproportionately affect men, but this is inevitable.

#### **Competition Impact**

17. The Inland Revenue does not expect these reforms to significantly affect the nature of competition in the van manufacturing industry or in any other particular industries.

#### **Impact on small business**

18. Currently 35,000 small companies with no more than 50 employees offer vans for private use.

19. The reform is intended to reduce overall administrative burden. The Inland Revenue anticipates that small businesses will not be significantly adversely affected in terms of effects on their compliance.

20. Employers will continue to have the option to pay any van benefit charge for their employees by entering into a PAYE settlement agreement.

### **Contact Point**

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