REGULATORY AND ENVIRONMENTAL IMPACT ASSESSMENT (RIA)

Fuel Scale Charge

Purpose and intended effect

1. The government plans to implement a new system for taxing the benefit of provided free fuel for private journeys in company cars that will help the environment, be easy for employers to implement and employees to understand.

Background

2. Where an employer provides free fuel for private use by an employee who drives a provided company car, income tax (payable by the employee) and Class 1A NICs (payable by the employer) are due. The tax is calculated using fuel scale charge rates. These are currently based on the engine size of the car and whether it runs on petrol or diesel.

3. In the 1998 Budget, the Chancellor announced that the fuel scale charges would be increased each year for the five years from 1998/99 to 2002/03 by 20% over and above the increase in pump prices. The aim was to discourage employers from providing, and employees from accepting, free fuel. The end of the five year programme gives the opportunity to move to a more environmentally based system.

Company car tax

4. The new system of taxing the benefit of provided company cars, based on CO_2 emissions, is introduced on 6 April 2002. The value of the benefit will be calculated as a percentage of the list price of the car, the appropriate percentage being based on the level of CO_2 emissions of the car. The percentages for petrol and diesel cars range from a minimum of 15 to a maximum of 35 per cent. For example, the value of the car benefit for a petrol car with CO_2 emissions of 170 g/km, would be 16 per cent of the list price of the car in tax year 2002/03.

5. 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 these cars may be less than the standard minimum rate of 15%.

Structure of the new fuel scale charge

6. Under the new system, tax and class 1A NICs due on free fuel will be calculated using the percentage figure already used to measure the benefit of a provided company car. The value of the benefit of the company car will be

the percentage figure multiplied by the list price of the car. The same percentage figure will be multiplied by a fixed amount to determine the value of the benefit of free fuel for use in that car.

Apportionment

7. A new system of apportionment will be introduced where an employee opts out of free fuel during the year. 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, so any change can only optimally be made just before the beginning of the tax year. This has deterred employers and employees from ceasing the provision of free fuel when it may be most appropriate to do so, in the middle of the tax year.

8. To avoid abuse of this easement, apportionment will not be allowed where an employee opts back into free fuel later in the same tax year.

Risks

9. The Inland Revenue does not foresee any significant risks associated with the introduction of the new CO_2-based fuel scale charges.

Options

10. The Revenue consulted on three options for restructuring the fuel scale charge to link it to the CO_2 and other emissions produced by different cars.

Option 1:

To link the free fuel benefit charge directly to the level of the CO_2 emissions of the car. The CO_2 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.

Option 2

To link the charge directly to the percentage figure used to calculate the car benefit charge under the new company car tax that starts from 6 April 2002. The appropriate percentage depends on the level of CO_2 emissions of the car and also takes account of supplements for diesels and discounts for alternative fuels.

Option 3

To structure the free fuel benefit charge in the same way as the new Graduated Vehicle Excise Duty, with four bands of CO_2 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 CO_2 emissions of the car.

11. Option 2, the subject of this assessment, was the preferred option.

12. The Revenue also consulted on whether to allow the charge to be proportionately reduced where an employee stops receiving free fuel part way through the year. Introducing apportionment was welcomed by respondants to the consultation.

Benefits

Environmental impacts

13. The environmental impacts of the new fuel scale charge will enhance the anticipated environmental gains from the new company car tax. It will provide further financial incentives for employers and employees to choose company cars with relatively low levels of emissions.

14. Additionally, allowing apportionment of fuel scale charges when an employee opts out of receiving free fuel during a tax year may reduce levels of unnecessary private mileage driven in company cars. This will have a beneficial environmental impact by further reducing levels of harmful emissions and congestion.

15. This new charge was chosen because of its administrative ease - using a figure the employer has already worked out; minimum additional administration will lead to fewer errors; and it is easy for employees to understand.

Policy Costs

16. This is a revenue neutral reform.

Staffing costs

17. Revenue staffing costs will be negligible.

Compliance costs

18. There are two types of impacts on employers’ compliance costs which will result from the introduction of the new structure for the fuel scale charges. They are non-recurring compliance costs which will occur when the new structure is first introduced in 2003/4 and recurring changes in the compliance costs which employers face in future years as a result of the new structure being in place.

Non-Recurring Compliance Costs

19. The non-recurring compliance costs will arise from time and other resources spent by employers, employees and agents understanding and explaining the new structure. This will include costs associated with providing training to employees where necessary. Some one-off costs associated with minor changes to computer software used by employers and agents will also be required. The Inland Revenue estimates that these non-recurring costs will be around £5 million.

Recurring Compliance Costs

20. However once these non-recurring costs are out of the way, employers who provide free fuel benefits should not face significantly different compliance costs. Administrative burdens will be kept to a minimum. Employers will already have obtained the CO_2 emissions figures to calculate the appropriate percentage rate for all their company cars. To calculate the new fuel scale charge they will simply use this same percentage figure and multiply it against a set figure supplied on the P11D or P11D worksheet.

21. Compliance cost savings will arise as there will no longer be a requirement to find and keep records of the engine sizes of company cars in order to establish the appropriate fuel scale charge.

22. Employers will have to keep records of when employees stop receiving free fuel to make sure that they benefit from apportionment of the fuel scale charge within a particular tax year. However the small extra compliance costs associated with this will be greatly outweighed by the employers paying lower Class 1A National Insurance Contributions on the free fuel benefits for such employees than would otherwise have been the case.

23. Employers will need to keep records of business mileage done by employees who no longer receive free fuel.

24. The Inland Revenue estimates that the overall annual effect on recurring compliance costs will be negligible.

Securing Compliance

25. The Revenue will issue new guidance on its website and in revised leaflets etc. well before the new fuel scale charge first has to be calculated in July 2004. Existing enforcement methods and penalties will apply.

Impact on Small Business

26. In 1998-99 (the latest year for which figures are available, 200,000 small companies with no more than 50 employees offered car benefits. Of

these,150,000 provided fuel benefits . This means over 10% of all small companies provide fuel benefit.

27. As administrative burdens will be kept to a minimum, i.e. only one small calculation will be needed per employee, small businesses will not be adversely affected.

Consultation

28. The Revenue issued a consultation document on 6 December 2001. Responses were invited from interested parties including employers, representatives of the main umbrella employer organisations, accountancy bodies and motoring organisations. The consultation closed on 8 February 2002.

Monitoring and Evaluation

29. The impact of this measure will be monitored and reviewed as part of the evalulation programme for the major reform to company car tax.

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REGULATORY IMPACT ASSESSMENT

FUEL SCALE CHARGE

Statement of Ministerial Approval

I have read the regulatory impact assessment and I am satisfied that the benefits justify the costs.

Signed by the responsible Minister:

Paul Boateng
Financial Secretary

Date: 12 April 2002