

Regulatory Impact Assessment

Employer Provided Vans

Introduction

1. Budget 2004 announced the Government's plans to implement a new system for taxing the benefit where an employer provided van is made available to an employee for private use. The new rules will be phased in between 6 April 2005 and 6 April 2007.
2. The Chancellor of the Exchequer announced in Budget 2002 that the Government would review the tax and National Insurance treatment of employer provided vans. This has been unchanged since scale charges were introduced in 1993.
3. Consultation took place during 2003. The consultation document set out the Government's thinking on how the existing system could be reformed and considered environmental objectives, fairness and modern working practices. We received 72 written responses. These came from accountants, local authorities, employers, representative bodies and individuals. Meetings were held with representative bodies to raise awareness of issues and the reform was discussed with other government departments.

Purpose and intended effect

4. The Government believes that, for a number of reasons, the present treatment of employer provided vans is in need of reform. It is too complicated, particularly where vehicles are shared. It does not reflect modern working practices. The flat rate charge is often not an accurate reflection of the economic benefit that right of private use of a van can confer, and it does not assist in achieving the Government's environmental objectives. Over the last ten years the availability, variety and use of employer-provided vans has grown significantly and the existing charge of

£500 per year (reduced to £350 if the van is 4 or more years old) has not been updated in that time. The Government believes that achieving positive environmental outcomes should also be a consideration in setting the van charge.

5. Against that background, the reform of the van benefit rules is 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 ensure a fair charge for the benefit an employee gets from the private use of a company van, taking account of the 2002 reform of the taxation of company cars;
 - to take into account the environmental impact of vans.

Risks

6. The Inland Revenue does not foresee significant risks associated with the introduction of a new employer provided van charge, although it will be necessary, before the new system takes effect, to obtain sufficient information from employers to ensure employees have accurate PAYE coding notices. From 6 April 2005 we will need to know when to reduce the existing charge to nil (where private use is restricted to home to workplace travel) or, from April 2007, to increase it to cover the charges for unlimited private use and fuel. To minimise this risk we will contact employers for information about their employees' private use of company vans in order to update PAYE codes before the new system goes live.

Options

7. The Inland Revenue consulted on a number of options for restructuring the employer provided van charge. The options were,

Do nothing

8. This option would fail to meet one of the Government's key objectives for transport tax policy to reflect environmental objectives. The existing system, introduced in 1993, does not meet the requirements of modern working practices. The degree of private use and associated benefit varies greatly between employees and reform is needed to provide greater levels of equity and fairness.

Environmental - CO₂ based system

9. The Government remains interested in developing a company van tax system more strongly geared to producing the environmental gains achieved by the new company car tax system, which is based on the approved CO₂ emissions figures for cars. This data will not be readily available for commercial vehicles until 2006, making such an approach more difficult at this time. Such a system could also mean more complex arrangements, compared to the existing rules, for calculating the charge for employer provided vans, thus increasing compliance costs for employers. In the meantime, the introduction from April 2007 of an increased scale charge, along with a separate fuel charge, where the vehicle is available for unrestricted private use addresses the negative environmental consequences of providing incentives for people to use vans for non business purposes.

Scale Charges

10. It is clear that cars and vans merit different treatment as the choice of van is often less about the employee's desire to drive a particular vehicle than the employer's need to provide the right vehicle for the job. The retention of a system of scale charges was strongly endorsed in many responses to the consultation document. The advantages of doing so include,
 - retaining a system that employers are already familiar with,
 - enabling existing IT programs and spreadsheets to be easily updated, and

- the overall simplicity of administration.

Retaining a system based on scale charges allows for the introduction of a new basis of charge reflecting the level of private use, while preserving a system liked by employers.

Fuel Charge

11. The Government acknowledges that the level of private benefit can differ enormously depending upon the amount of private use and availability of fuel for private use. Where an employee has unrestricted private use and chooses to accept the provision of fuel, the fuel constitutes a clear and distinct benefit. For those employees who do not benefit from free fuel, a scale charge based on the inclusion of fuel would be untenable. It is therefore only fair that those accepting free fuel should incur a higher charge. The introduction of a separate fuel charge for company vans with unrestricted private use is in line with company car tax regime.

Business sectors affected

12. The proposals will affect any business that provides its employees with vans for private use. Specifically, it will affect some businesses concerned with the carriage of goods or materials. Our records show that there are around 40,000 employers providing 220,000 employees with a van benefit – see paragraph 31.
13. As a result of moving, from April 2005, to a nil charge where private use is limited to ordinary commuting, we estimate that employers will no longer have to report company van benefits for over 85% of employees who would otherwise have faced a van charge. And from April 2007, it will no longer be necessary for employers to distinguish between older vans over 4 years old and newer vans when reporting the van benefit. This measure is, therefore, largely deregulatory and we do not anticipate any significant effects on the commercial vehicle industry or on employers who operate company vans.

14. This reform does not affect the self-employed.

Small Business impact

15. Currently 35,000 small businesses with no more than 50 employees offer vans for private use. This breakdowns as 82% companies, 11% sole proprietors and 6% partnerships.

16. With over 85% of employees being taken out of charge most small businesses will benefit significantly from this major deregulation.

17. The reform is intended to reduce the overall administrative burden. The Inland Revenue anticipates that small businesses will be helped in terms of effects on their recurring compliance costs.

18. The Small Business Services (SBS) were consulted and they welcome the point that employers will no longer have to complete a P11D for 85% of employees who would otherwise have faced a van charge. They confirmed this deregulation would reduce the burden on small businesses.

19. Employers will no longer need to consider whether to pay any van benefit charge for restricted use on behalf of their employees by entering into a PAYE settlement agreement (PSA). But from April 2007 the charge for unrestricted private use will no longer be considered minor or irregular and will therefore fall outside the rules for PSAs.

Issues of equity and fairness

Equality impact

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

21. The nil charge for home to work use only will remove over 85% of van drivers from charge. This means a net saving of between £77 - £110 per year for a basic rate taxpayer.

Competition impact

22. The Cabinet Office's competition filter test has been used in assessing the competition impacts of the reforms to the company van tax system. 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. Generally, this is because there are no rules specifying different charges for different types of vans, but rather a single scale charge based on the type of private use made of the vehicle.

Benefits

Environmental Impact

23. Introducing a new higher charge for unrestricted private use from April 2007 is likely to lead to a reduction in the number of company vans used for such private use. This will benefit the environment because it should lead to company van drivers doing less private mileage thus reducing levels of harmful emissions and congestion. It should also help to reduce levels of harmful emissions by increasing the extent to which they do private mileage by other generally more environmentally friendly forms of transport instead, i.e. cars and public transport.
24. The new higher charge for unrestricted private use will decrease the attractiveness of having a vehicle liable for company van tax as an alternative to a company car. It should therefore help to reduce levels of harmful emissions, as company cars generally produce lower levels of harmful emissions than vehicles liable for company van tax.
25. Introducing a separate scale charge where fuel is provided for company vans and there is no restriction on private use, will lead to a decrease in the number of company van drivers receiving free fuel for private use. This is likely to lead to a decrease in the amount of private mileage done by van drivers as they may do less private mileage if they have to pay for their own fuel thus helping to reduce levels of harmful emissions and road congestion.

26. The abolition of a reduced charge for older vans removes the existing incentive for retaining older generally more polluting vans. However, we do not expect this to greatly influence the commercial vehicles second hand sales market. Nor do we anticipate a significant increase in the number of commercial vehicles being scrapped.

Costs

Exchequer cost

27. The new rules, effective from 6 April 2005, will introduce a nil charge for employees whose private use is restricted to home to work travel and will result in an Exchequer cost. We estimate this at around £30m. However from 6 April 2007, where the private use of a van is unrestricted, a higher van benefit charge will apply together with a new fuel charge when fuel for private use is also provided. These changes will result in an Exchequer yield. From April 2007 we project 290,000 employees will have an employer provided van and an estimated yield of around £30m, making this reform revenue neutral.

Compliance Cost Effects

28. Removing over 85% of employees from charge will substantially reduce the administration and reporting burden on employers, leading to fewer errors. It will also reduce Inland Revenue administration and compliance work for this benefit.

29. Essentially, we anticipate the following two types of impacts on employers' compliance costs,

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

Implementation Costs

30. As with any change to the tax system there will be some one-off compliance costs associated with the introduction of this reform. These costs will occur while employers familiarise themselves with the new system and Inland Revenue guidance. They will also arise from employers needing to make changes to administrative and IT systems to accommodate the new charges. These changes should not be very onerous. It should be fairly straightforward to amend systems to record the necessary information related to things such as 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. There will be some implementation costs for software companies associated with making changes to payroll software.
31. The Inland Revenue estimates the total one-off compliance costs for employers to be roughly £1million given the numbers of 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

32. The simplification of the rules for shared vans will lead to reduced compliance costs associated with calculating the tax and reporting to the Inland Revenue. The abolition of the reduced charge for older vans will lead to some reductions in compliance costs associated with retaining records of van ages. We estimate a saving of roughly £1million per year for employers.
33. The change in the basis of charge may slightly increase the compliance costs for some employers. In some instances employers might need to keep records of the following information,
- whether an employee is able to use the van for private journeys other than those between home and work. Many employers have a general

policy covering private use for all staff and so this is not likely to be onerous in most cases;

- whether the drivers receive free fuel for private use. Again many employers may simply apply a general policy on this covering all of their van drivers.

34. These minor increases in administration will be more than offset by the time saved in no longer having to report company vans available for commuting use only. Taking over 85% of current users out of charge presents a significant saving in time and reduction in recurring compliance costs, i.e. employers will no longer have to declare them on P11Ds.

Securing Compliance

35. There is a risk that some individuals may continue to use their vans for unrestricted private travel and claim they do not in order to benefit from the nil charge. We do not think this will be significant. Our guidance for employers will clearly state where private use goes beyond home to workplace travel a scale charge and normal reporting requirements apply.

36. We understand, from employers' responses to the consultation document, that a restriction on private travel already operates in most cases. Employers will need to satisfy the Inland Revenue that their van drivers do not have unrestricted private use in order to qualify for the nil charge. For example, we would expect to see evidence in employment contracts documenting company policy on private use of vans together with evidence that the employer enforces compliance with these rules.

Monitoring and Evaluation

37. Inland Revenue plans to monitor and evaluate the new tax and NICs arrangements for employer provided vans. It will assess the impact of the new arrangements over time compared against the predicted costs and impacts in this RIA.

Consultation

38. The consultation on employer provided vans ran from May to July 2003.

We received a good number of balanced and constructive responses.

Through this process we were able to make an assessment of the likely effect on industry and individuals of the options available to us.

39. The following points summarise the main responses to the consultation,

- a van is an operational tool, purchased by employers to do a specific job;
- most employees do not have a choice in the vehicle their employer provides;
- there was strong support for retaining scale charges because they kept administration and compliance simple;
- many endorsed the principle of a charge linked to levels of private use;
- most felt that moving to an emission based system was neither feasible nor appropriate for company vans;
- incentives for alternative fuel were rejected on the basis that green vans do not meet the operational standards of diesel models, employers would not compromise their business requirement for a van to be fit for purpose.

40. The final recommendation to retain a scale charge system, based on the type of private use available to employees instead of CO₂ emissions or vehicle type, was influenced by responses to the consultation.

Summary

41. To meet the needs of modern working practices this reform will,

- retain a system of scale charges;

- change the basis of charge to reflect the type of private use available to the employee;
- continue to exempt from charge vans made available for business only;
- introduce a nil charge for home to work use;
- introduce a single charge for unrestricted private use;
- abolish the lower scale charge for older vans and,
- introduce a new fuel charge where fuel is provided together with unrestricted private use of a company van.

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REGULATORY IMPACT ASSESSMENT

EMPLOYER PROVIDED VANS

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:

John Healey

Economic Secretary to the Treasury

Date 1 April 2004