EXPLANATORY MEMORANDUM TO

THE INCOME TAX (CAR BENEFITS) (REDUCTION OF VALUE OF APPROPRIATE PERCENTAGE) (AMENDMENT) REGULATIONS 2005

2005 No. 2209

1. This explanatory memorandum has been prepared by HM Revenue & Customs (HMRC) and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Description

This instrument amends the Income Tax (Car Benefits) (Reduction of Value of Appropriate Percentage) Regulations 2001 (S.I. 2001/1123) to achieve the following objectives:

(a) to withdraw the 3% supplement waiver for Euro IV diesel cars from 6 April 2006 for all diesel cars first registered on or after 1st January 2006, as announced in the 2004 Pre Budget Report; and

(b) to simplify the current alternative fuel discounts from 5 April 2006, as announced in the 2005 Budget.

3. Matters of special interest to the Joint Committee on Statutory Instruments

None

4. Legislative Background

4.1 The income tax charge on cars made available for the private use of employees by reason of their employment ("company cars") was subject to major reform in the 2000 Finance Bill and came into effect from 6 April 2002.

4.2 The reforms changed the way that company cars are taxed to better protect the environment. The new system provides an incentive for company car drivers and their employers to choose more fuel efficient cars, removes any incentive to drive unnecessary extra business miles and encourages manufacturers to produce cars with lower carbon dioxide emissions. There is an added incentive to choose cars powered by alternative, environmentally friendly fuels.

4.3 The new system introduced in April 2002 is based on a percentage (ranging from 15% - 35% in 1% increments) of the car's list price graduated primarily according to the level of its carbon dioxide emissions.

4.4 Diesel cars first registered on or after 1 January 1998 attract a percentage supplement of 3%, originally imposed by para 5D Sch 6 ICTA, now by s141 ITEPA. This is to reflect that while diesel cars generally have lower CO_2 emissions than equivalent petrol cars, they emit higher levels of other pollutants, primarily Nitrous Oxide (NO_x) and Particulate Mass (PM), that adversely affect local air quality.

4.5 From inception, the 3% diesel supplement was waived for the cleanest diesels – those that meet Euro IV emissions standards – by Regulation 3 SI 2001/1123. This was intended as an incentive to encourage employers and company car drivers to choose these cars which had low CO_2 emissions but also lower air quality pollutants.

4.6 Company cars that are capable of running on alternative fuel such as LPG, CNG or battery-propelled cars currently enjoy a discount from the company car percentage for a petrol-only equivalent car. The principal aim of these discounts is to improve the local air quality as well as to encourage early take up of this technology.

4.7 The powers exercised to make this instrument are set out in section 170(4) Income Tax (Earnings and Pensions) Act 2003 and are exercisable by the Treasury.

5. Extent

This instrument applies throughout the United Kingdom.

6. European Convention on Human Rights

This instrument is subject to the negative resolution procedure and does not amend primary legislation. Accordingly, no statement of compliance with the European Convention on Human Rights is required.

7. Policy background

7.1 The Government announced in the 2004 Pre Budget Report that the waiver of the 3% diesel supplement for all diesel cars that meet the Euro IV emissions standards will no longer apply to cars registered from 1 January 2006 with effect from 6 April 2006.

7.2 The introduction of the waiver of the 3% supplement for diesel cars with the cleanest technology was aimed to encourage early take up of this technology. It is no longer appropriate to provide this incentive as, under the EC Regulations, Euro IV becomes mandatory for all new cars registered from 1 January 2006. However, diesel cars that meet the Euro IV emissions standards and are registered before 1 January 2006 will retain the waiver of the 3% supplement. This is consistent with the principles of regulatory certainty and to reward those who chose these cars prior to their being mandatory.

7.3 The Government announced in Budget 2005 that it will be simplifying the current alternative fuel discounts. From 6 April 2006, the discounts for cars that run on alternative fuels for all cars first registered on or after 1 January 1998 are as follows:

(a) for hybrid electric and petrol cars, the discount has been increased to 3%, and the additional discount for each 20g/km by which the car's CO2 emissions figure is less than the lower emission threshold has been removed;

(b) for gas-only and bi-fuel gas and petrol cars manufactured as such or converted before type approval, the discount has been increased to 2% and the additional discount for each 20g/km by which the car's CO2 emissions figure is less than the lower emission threshold has been removed;

(c) for bi-fuel and petrol cars converted after type approval, this is reduced from 1% to nil; and

(d) for electrically propelled cars, no change.

8. Impact

A regulatory impact assessment has not been prepared as these Regulations impose negligible costs on business, and most businesses will face no additional costs at all.

9. Contact

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