

**EXPLANATORY MEMORANDUM TO**  
**THE CAR AND VAN FUEL BENEFIT ORDER 2012**

**2012 No. 3037**

1. This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs (HMRC) on behalf of Her Majesty's Treasury and is laid before the House of Commons by Command of Her Majesty.

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

2. **Purpose of the instrument**

- 2.1 With effect from 6 April 2013, this instrument increases the multiplier, the figure in section 150(1) of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) used to calculate the cash equivalent of the benefit of car fuel received by an employee, from £20,200 to £21,100.

- 2.2 With effect from 6 April 2013, this instrument increases the van fuel benefit figure in section 161(b) from £550 to £564.

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

- 3.1 The instrument implements an uprating measure announced as part of Budget 2012. As a matter of policy, uprating measures are not pre-announced before the Budget. The uprating measures, generally, were to take effect from 6 April 2012, the beginning of the next tax year after the Budget to ensure that the maximum number of businesses benefit from the changes. In this instance, the uprating measure announced at Budget 2012 will take effect from 6 April 2013.

- 3.2 In Budget 2012 the formula to be used to increase the car fuel benefit multiplier for 2013-14 was announced as RPI + 2% so that the correct figure would be available for the 2013-14 PAYE coding process. This instrument must be made before the tax year for which it is to take effect and it therefore comes into force on 31 December 2012.

4. **Legislative Context**

- 4.1 This Instrument is made by Her Majesty's Treasury under section 170(5) and (6) of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA).

- 4.2 Where an employee to whom the car or van benefit charge applies, pursuant to sections 120-148 ITEPA, receives fuel which is available for private use without charge from their employer or otherwise by reason of their employment, there is a chargeable benefit in kind generally known as the fuel

benefit charge (provided for in section 149 ITEPA for cars and section 160 ITEPA 2003 for vans)

4.3 For cars, the cash equivalent of the fuel? benefit (needed to determine income tax assessable on the individual and the level of Class 1A National Insurance Contributions (NICs) payable by the employer) is calculated by applying the appropriate percentage (normally based on the car's CO<sub>2</sub> emissions) to a notional annual value (the multiplier) for the fuel.

4.4 For vans the cash equivalent of the fuel? benefit (needed to determine income tax assessable on the individual and the level of Class 1A National Insurance Contributions (NICs) payable by the employer) is a fixed sum provided for in section 161 ITEPA 2003.

4.5 This instrument increases the multiplier in respect of fuel for cars from £20,200 to £21,100 with effect from 6 April 2013, and the benefit chargeable to tax in respect of fuel for vans from £550 to £564, also with effect from 6 April 2013.

## **5. Territorial Extent and Application**

5.1 This instrument applies to all of the United Kingdom.

## **6. European Convention on Human Rights**

The Economic Secretary to the Treasury has made the following statement regarding Human Rights:

In my view the provisions of the Car and Van Fuel Benefit Order 2012 are compatible with the Convention rights.

## **7. Policy background**

- *What is being done and why*

7.1 The changes are consistent with the broader environmental objective of encouraging a transition to lower-carbon transport by incentivising through tax changes the uptake and use of lower-emitting company cars and vans.

7.2 The current system for valuing the benefit accruing to employees in respect of the free fuel, based on the multiplier and the appropriate percentage, was introduced by section 34 of the Finance Act 2002. This replaced previous fuel scale charges. The multiplier was originally set at £14,000 for the years 2003-04 to 2007-08 and increased to £16,900 for the years 2008-09 to 2009-10, increased to £18,000 for 2010-11, £18,800 for 2011-12 and £20,200 for 2012-13. The benefit charge reflects a notional value for the fuel received.

7.3 It was announced in Budget 2008 that in future the car fuel benefit charge multiplier would increase at least in line with inflation each year and the Government has agreed to continue this policy approach. Increasing the

car fuel benefit charge multiplier will strengthen the disincentive to unnecessary driving. Employees who do not wish to pay this charge can simply opt out of receiving free fuel and instead buy their own fuel. There are existing provisions for reclaiming the cost of business mileage in company cars.

7.4 The current regime for valuing the benefit of fuel provided by an employer for private use in a company van was introduced by section 80 of the Finance Act 2004. This was originally set at £0 for the years 2005-06 to 2006-07, £500 for the years 2007-08 to 2009-2010, and £550 for the years 2010-11 to 2012-13.

7.5 The Government announced the changes for the 2013-14 tax year in the 2012 Budget Report. This Order gives effect to that announcement.

## **8. Consultation outcome**

8.1 Consultation was not appropriate as this is an uprating measure.

## **9. Guidance**

9.1 The change was announced at Budget 2012 and the relevant HMRC guidance will be amended in line with this Order.

## **10. Impact**

10.1 The impact on business, charities or voluntary bodies is negligible.

10.2 No impact on the public sector is foreseen.

10.3 A Tax Information and Impact Note has not been prepared for this Instrument as it give effect to previously announced policy.

## **11. Regulating small business**

11.1 The legislation applies to small business. However, we are satisfied that the regular contact we have with industry groups includes representatives of small business. There is no indication that they would have any difficulty in implementing the change, which will be implemented by a change of employee tax code notified to employers.

## **12. Monitoring and Review**

12.1 This policy will be monitored and assessed alongside other measures in the Government's package of personal tax and benefits changes.

## **13. Contact**

13.1 Mrs Su McLean-Tooke at HMRC Tel: 020 7147 2665 or email: [susan.mclean-tooke@hmrc.gsi.gov.uk](mailto:susan.mclean-tooke@hmrc.gsi.gov.uk) can answer any queries regarding this instrument.