

EXPLANATORY MEMORANDUM TO

THE VAN BENEFIT AND CAR AND VAN FUEL BENEFIT ORDER 2018

2018 No. 1176

1. Introduction

- 1.1 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.

2. Purpose of the instrument

- 2.1 This instrument covers circumstances where an employer either provides fuel which is used for private mileage in a company car or van, or provides a van which is used for private mileage. Such benefits are taxable and the amount on which tax is charged is updated each year – the changes below have effect from 6 April 2019.
- 2.2 The fixed sum (multiplier), which is used in combination with the appropriate percentage to calculate the cash equivalent of the benefit of car fuel for private use provided to an employee with a company car, will increase from £23,400 to £24,100.
- 2.3 The flat-rate figure which represents the cash equivalent of the benefit of a van provided to an employee will increase from £3,350 to £3,430.
- 2.4 The flat-rate figure which represents the cash equivalent of the benefit of fuel provided for private use in a van will increase from £633 to £655.

3. Matters of special interest to Parliament

Matters of special interest to the Select Committee on Statutory Instruments

- 3.1 None.

Matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of Commons relating to Public Business (English Votes for English Laws)

- 3.2 As the instrument is subject to negative resolution procedure there are no matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of Commons relating to Public Business at this stage.

4. Extent and Territorial Application

- 4.1 The territorial extent of this instrument is the United Kingdom.
- 4.2 The territorial application of this instrument is the United Kingdom.

5. European Convention on Human Rights

- 5.1 The Exchequer Secretary to the Treasury (Robert Jenrick) has made the following statement regarding Human Rights:

“In my view the provisions of the Van Benefit and Car and Van Fuel Benefit Order 2018 are compatible with the Convention rights.”

6. Legislative Context

- 6.1 This instrument is made by Her Majesty's Treasury under the order making power provided in section 170(1A)(b) and (c), (2), (5) and (6) of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA).

Van benefit charge

- 6.2 Where an employee is provided with a van by reason of his or her employment and the employee uses the van for private use, there is a chargeable benefit in kind generally known as the van benefit charge. The charge does not apply if, for practical purposes, the van is used substantially for ordinary commuting and business travel, provided that any other private use is insignificant.
- 6.3 The cash equivalent of the benefit is a flat rate figure to which the individual's marginal rate of tax is applied. This figure is currently reduced for zero-emission vans.
- 6.4 The current system for valuing the benefit to employers for a van made available for private use was introduced by section 80 of, and paragraphs 1 and 5 of Schedule 14 to, the Finance Act 2004.
- 6.5 This instrument increases the van benefit charge from £3,350 to £3,430 with effect from 6 April 2019.

Car and Van Fuel Benefit Charges

- 6.6 Where an employee, to whom the car or van benefit charge applies, receives fuel from their employer or otherwise by reason of their employment, there is a taxable benefit in kind generally known as the fuel benefit. If the whole of the cost of fuel used for the employee's private use is made good in full in the relevant tax year, the fuel benefit charge is reduced to £0.
- 6.7 For cars, the cash equivalent of the fuel benefit charge is calculated by applying the appropriate percentage (normally based on the car's CO₂ emission) to a notional annual value (the multiplier) for the fuel made available for private use. This calculation was introduced by section 34 of the Finance Act 2002 and replaced previous fuel scale charges.
- 6.8 For vans, the cash equivalent of the fuel benefit charge is a flat-rate figure. The provision of a fixed sum for valuing the benefit of fuel provided by an employer for private use in a van subject to the van benefit charge was introduced by section 80 of, and paragraphs 1 and 5 of Schedule 14 to, the Finance Act 2004.
- 6.9 This instrument increases the fixed sum (multiplier) in respect of fuel for cars from £23,400 to £24,100, and the taxable benefit in respect of fuel for vans from £633 to £655, both with effect from 6 April 2019.

7. Policy background

What is being done and why?

- 7.1 The government announced at Budget 2018 that the van benefit charge would increase in line with the consumer prices index for September 2018 and the car and van fuel benefit charges would be increased in line with the retail prices index for September

2018. This instrument must come into force by 31 December 2018 to ensure the correct figures are available for the 2019-20 PAYE coding process in January 2019.

- 7.2 Approximately 210,000 individuals are likely to be affected by the increase in the car and van fuel benefit charge. Approximately 80,000 individuals are likely to be affected by the increase in the van benefit charge.

Van Benefit Charge

- 7.3 The charges are consistent with the government's broader objectives of ensuring that those who use company vans for private use purposes make a fair contribution to the public finances.
- 7.4 Increasing the van benefit charge will strengthen the disincentive to undertake unnecessary driving for private purposes.

Car and Van Fuel Benefit Charges

- 7.5 Employers who do not wish to pay this charge can simply opt out of receiving free fuel for private use and instead buy their own fuel, or pay back the full cost of fuel provided by the employer for private use. There are also existing provisions for reclaiming the cost of business travel in company cars. The changes are consistent with the government's broader environmental objective of encouraging a transition to lower-carbon transport by using tax changes to incentivise the use of lower-carbon emitting company cars and vans. The changes are also consistent with the government's broader objective of ensuring that those who use company cars and vans for private purposes make a fair contribution to the public finances.

8. European Union (Withdrawal) Act

- 8.1 This instrument does not relate to withdrawal from the European Union.

9. Consolidation

- 9.1 Not applicable.

10. Consultation outcome

- 10.1 Consultation was not appropriate as this is an uprating measure. Changes were expected and the government does not consult on the amount of tax increases.

11. Guidance

- 11.1 The changes were announced at Budget 2018 and the relevant HMRC guidance will be amended in line with this Order and published for consultation by 31 December 2018.

12. Impact

- 12.1 The impact on business, charities or voluntary bodies is expected to be negligible.
- 12.2 The impact on the public sector is expected to be negligible.
- 12.3 A full Impact Assessment has not been submitted but a Tax Information and Impact Note covering this instrument will be published on the HMRC website at: <https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins>.

13. Regulating small business

13.1 The legislation applies to activities that are undertaken by small businesses.

14. Monitoring & review

14.1 This instrument is exempt from a review provision under section 28(3) (a) of the Small Business Enterprise and Employment Act 2015.

15. Contact

15.1 Jyoti Mistry at HMRC Telephone: 03000 542582 or email: employmentincome.policy@hmrc.gsi.gov.uk can be contacted with any queries regarding the instrument.

15.2 Jackie McGeehan (deputy Director – Income Tax Product) at HMRC can confirm this Explanatory Memorandum meets the required standard.

15.3 The Exchequer Secretary to the Treasury can confirm that this this Explanatory Memorandum meets the required standard.