HM Treasury consultation on

Company Car Tax

for

Ultra-Low Emission Cars

Submission from:

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About the BVRLA and its members

- Established in 1967, the British Vehicle Rental and Leasing Association is the UK trade body for companies engaged in the rental and leasing of cars and commercial vehicles. Its members operate a combined fleet of 4.5 million cars, vans and trucks.
- BVRLA members purchase nearly 50% of all new vehicles sold in the UK, an estimated 1 million vehicles per annum, including an estimated 80% of all cars built and sold in the UK.
- Collectively, members of the BVRLA support around 317,000 jobs and contribute over £24.9 billion to the UK economy each year.
- Through its members and their customers, the BVRLA represents the interests of over 2 million business car drivers and 10 million people per year who choose to rent a vehicle.
- As well as informing the Government and policy makers on issues affecting the sector, the BVRLA regulates the industry through a mandatory code of conduct, helping its members deliver safe, sustainable and affordable road transport to millions of consumers and businesses. For more information, please visit www.bvrla.co.uk.

Executive Summary

The BVRLA welcomes the opportunity to contribute to HM Treasury's consultation on Company Car Tax on ultra-lower emission cars. As the trade association for companies engaged in the rental and leasing of cars, the BVRLA has continued to express its concern at the cumulative effect of a series of unstainable tax rises on employees who have chosen to take a company car as part of their work package[1].

The BVRLA therefore welcomes and supports the Treasury's objective of encouraging the take-up of ultra-low emission vehicles (ULEVs) among company car drivers. The UK leasing sector has always taken the lead in providing the newest, cleanest and greenest vehicles to employees, as well as driving secondary uptake of lower emission vehicles by selling these vehicles at the end of their (typically three-year) leases to the aftermarket and pleased that this is positively acknowledged in the consultation paper as a key distribution channel into the second-hand market.

We note the Government's overall goal of nearly all cars and vans in the UK fleet being zero emission by 2050, and that nearly all new cars and vans sold in the UK should be zero-emission by 2040.

We agree with the proposal to refine tax bands within the ultra-low emission class (that is, vehicles with an emissions rating of 75g CO_2 per kilometre, or less). However, the tax incentive of ULEVs over higher emission vehicles must be substantial to help persuade employers to allow such ultra-low emission cars on their list of options to their employees. This is particularly important for vehicles capable of zero emission miles (EV), which have a comparatively higher upfront cost than most conventional internal combustion engine (ICE) vehicles.

While we have considered other methods for determining the tax treatment of ULEVs company cars, but feel that CO_2 emissions should remain the basis of classification and it is well understood and simple to implement.

We recommend that the HM Treasury should implement, for vehicles with a CO_2 rating of 75g CO2 or less a progressive, graduated bands of either 5 or 10g CO2 per kilometre, with no "cliff edges", i.e. bandings where vehicles with similar emissions but on different sides of a tax differential would face markedly different tax treatment.

[1] To illustrate, the combined effect of the 2% increase in Company Car Tax from 2017-18, and the previous Chancellor's decision to delay the anticipated removal of the 3% diesel supplement on company car tax from April 2016 to April 2021, translates to a total additional **£626.94** in 2017-18, and a **£882.26** in 2018-19, compared to 2013-14. The BVRLA is keen to ensure that the increasing tax burden on company car drivers does not result in the total number of employees taking a company car falling as it did between 2005 and 2015, when 30,000 drivers left the system.

The reasons behind this is that clarity and certainty in the Company Car Tax system is of particular importance to employees and employers (who, as acknowledged above, are key to encouraging greater take-up of ULEVs).

For the same reasons, we recommend that while the system should be subject to regular review, there should be a continuation of a 5 year rolling car tax bands allow employers and employees adequate time to plan ahead with certainty and clarity.

Finally, while an update of the CCT bandings to reflect advancements in technology (and to incentivise the automotive industry to produce vehicles with still better emissions ratings) is to be welcomed, we encourage the Government to consider further means of encouraging take-up of greener vehicles. While the current CCT system can reward drivers of hybrid vehicles, despite there being no guarantee that these vehicles will be driven in the electric mode. We would therefore ask the Government to consider in-life incentives, alongside the proposed reformation of CCT, for drivers of ultra-low emission vehicles. For example, the BVRLA has supported “green lanes” in areas of high congestion and/or low air quality, in which only vehicles conforming to the highest emissions standard would be permitted to drive; plus subsidised or free parking for ultra-low emission vehicles.

Consultation questions

Question 1: Do you agree that company car tax bands should be refined from 2020-21 onwards in order to provide stronger incentives for ULEVs?

The BVRLA supports the proposal to refine the tax bandings to incentivise the take-up of cars with emissions under 75g CO_2 per kilometre (g/km). In particular, the incentivisation of hybrid and pure Electric Vehicles (EVs) should be considered a priority in any future amendment of the Company Car Tax system.

Company car choice is determined by a Total Cost of Ownership (TCO) which includes the upfront cost of the vehicle, and the CO_2 rating (as far as it affects both Vehicle Excise Duty and Company Car Tax). It is therefore imperative that the tax benefits of selecting an ULEV through the Company Car Tax system is sufficiently higher than an internal combustion engine (ICE) cars. Failing to do so would render the investment policy aimed at encouraging a take up of ULEVs as ineffective, especially as ULEV technology commands a premium over an ICE vehicle.

EVs would effectively be taxed out of fleet car choice lists. Ultra-low emission cars must therefore remain financially attractive enough for company car employees to take up. This has been proven in several Scandinavian countries, where electric and PHEVs now account for around 50% of new cars delivered. Over the past few years ULEVs have increased as a large percentage year-on-year in the UK, but still only make up a modest, single-digit percentage of the UK business vehicle fleet in real terms. Similarly, around 75% of all new PHEVs have come from the fleet sector, emphasising the key role of the sector in securing wider take-up of new lower-emission technology.

All revised bandings should be fair and consistent, and set for a five year rolling period. In addition, while BVRLA members would support any early introduction of any proposed changes to Company Car Tax bands for cars with emissions under 75g/km ahead of the proposed 2020 timeline. As well as being fairer to users of company cars, such a clear well signalled change would also maximise the likelihood of greatest take-up of the lowest emission vehicles.

Question 2: Should CO2 emissions only be used as the basis for new ULEV bands in the company car tax structure from 2020-21 onwards?

The BVRLA believes that CO_2 should remain the sole basis in which Company Car Tax is calculated for the foreseeable future. While nitrogen oxide (NOx) emissions are becoming more important in terms of the public and political agenda, simplicity and understanding on the part of the employee and the fleet manager are key in encouraging driver behaviour toward a particular type of car.

In order to maintain confidence among drivers and fleet operators in the proposed system, HM Treasury must also consider the potential effect of the anticipated move to using worldwide harmonized light vehicles test Procedures (WLTP) to measure vehicle emissions. As the WLTP testing is far more sensitive to variations in vehicle size, weight, height etc., making additions or modifications to a vehicle could impact on emissions, which could in turn change the tax treatment of the vehicle – for example, the Committee on Climate Change report, "Quantifying the impact of real-world driving on total CO_2 emissions from UK cars and vans", estimates that CO2 emissions for plug-in hybrid electric vehicles (PHEVs) will increase by 50% under the WLTP system. It may therefore be worthwhile to acknowledge that under WLTP, certain ULEVs may incur a higher emission rate[2].

Several BVRLA members have reported examples of where drivers and employers who have selected a ULEV have been exposed to a far higher tax (and National Insurance) bill than they first expected. As vehicles must be approved by the employer before being made available under the company vehicle policy, such employers must have confidence that modifications to a ULEV will not result in significant variations in the tax treatment in order for them to support the adoption of ULEVs as part of their company fleets.

Similarly, increasing tax on ULEVs over the next 3-4 years could be too steep and harsh, and would erode the benefits of selecting a greener vehicle (in some cases, this could be more penal). For this reason, we believe HM Treasury is considering an appropriate timescale for any proposed changes to the current CCT bandings.

Question 3: If the new ULEV bands should not be based solely on CO2 emissions what additional factor should new ULEV bands in company car tax be based on?

See response to question 2. While BVRLA members have considered the merits of vehicle range (while in fully electric mode) as part of the Company Car Tax system, we believe that the importance clarity and simplicity are key to the increase of low and ultra-low emission cars. In any case, moving to a granular banding, as we have suggested, will reflect the zero miles range capability.

[2] Committee on Climate Change (September 2015), "Quantifying the impact of real-world driving on total CO_2 emissions from UK cars and vans", at p.14: https://www.theccc.org.uk/wp-content/uploads/2015/09/Impact-of-real-world-driving-emissions-for-UK-cars-and-vans.pdf

Question 4: If new ULEV bands were introduced, should these be charged on the basis of continuous narrower bands (e.g. X appropriate percentage per 5 grams of CO2 per km), or should there be fewer wider emission rate bands?

The preferred option would be to implement progressive, graduated bands, where there are no “cliff edges”, i.e. bandings where vehicles with similar emissions but on different sides of a tax differential would face markedly different tax treatment. Ideally, we believe that increasing the tax bandings in increments of 5g/km would work as well for ultra-low emission cars as it has for vehicles above 75g/km. Alternatively, increasing over 10g/km would also be acceptable. As set out previously, simplicity is key to ensuring that the new approach is both commercially and operationally beneficial for all concerned.

Question 5: If there should be fewer wider bands, how many should there be and where should the breakpoints between the bands be?
How many Company Car Tax bands should there be, and at what levels of CO2 g/km should these be set? Again, your experience would be beneficial in informing a view on this.

As set out above, the BVRLA support more progressive tax bandings, progressing at either 5g or 10g CO_2 per kilometre. In terms of numbers, we would propose no more than ten categories to ensure the final system is as clear and simple as possible.

As an additional point, technology is moving at a fast rate – for example, cars with emissions under 100g/km are now commonplace, where these were previously exceptional. For this reason, the BVRLA advocates that the Company Car Tax bandings are subject to annual review, with reductions in the top rate made when the market has overtaken the technology, in order to encourage uptake of the most efficient and lowest emission cars at the expense of inferior models.

Question 6: If zero emission miles should be used as well as CO2 emissions as the basis for new ULEV bands, how many zero emission miles bands should there be and where should the breakpoints between the bands be?

The BVRLA believes that zero emission vehicles should continue to be exempt from Company Car Tax. This is the most effective way to drive behaviour among employees taking a company car, and the businesses providing these.

Closing comments

The BVRLA welcomes the opportunity to provide its experience, and that of its members, to HM Treasury in considering future bandings for Company Car Tax on ultra-low emission cars.

The BVRLA would be happy to provide any additional information or clarification on any point presented in this submission, or present our views in person to any relevant official(s), if requested.