HM Treasury

Review of WLTP and Vehicle Taxes

Response from:

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Response to HM Treasury Review of WLTP and Vehicle Taxes

Bona-fides **BVRLA, the industry and its members**

- Established in 1967, the British Vehicle Rental & Leasing Association (BVRLA) is the UK trade body for companies engaged in vehicle rental and leasing.
- BVRLA membership provides customers with the reassurance that the company they are dealing with adheres to the highest standards of professionalism and fairness.
- The association achieves this by maintaining industry standards and regulatory compliance via its mandatory codes of conduct, inspection programme and conciliation service. To support this work, the BVRLA shares information and promotes best practice through its extensive range of training and events.
- On behalf of its 980+ members, the BVRLA works with governments, public sector agencies, industry associations and key business influencers across a wide range of road transport, environmental, taxation, technology and finance-related issues.
- BVRLA members are responsible for a combined fleet of almost five million cars, vans and trucks, supporting around 465,000 jobs and contributing £49bn to the economy each year. For more information, please visit www.bvrla.co.uk.

Executive Summary

Over the last twenty years, the fleet sector has embraced the introduction of carbon-based motoring taxes and used the incentives they provide to deliver a sustained and substantial reduction in average CO_2 emissions. The company car tax regime has enabled fleets to reduce their carbon footprints and embrace ultra-low emission technology. For example, the average emissions of a BVRLA-member provided company car have fallen year-on-year, reaching an average of 111g/km CO_2 at the end of the third quarter of 2018. The average newly registered company car emits 12% less CO_2 than its new privately registered car while car rental vehicles typically produce 26% less CO_2 than the average car on the road[1].

However, there is a real danger that the progress made in decarbonising road transport could be reversed if the government fails to act by making tax changes to manage the impact of the transition to WLTP. The uncertainty created by the sharp and persistent increases in company car tax rates – made worse by the confusion and unintended tax rise from the WLTP transition, along with the lack of visibility on future rates, are contributing to employees and employers opting out of the company car market. Work by Sewells Research and Insight shows that 27% of businesses currently offering company car schemes are *very likely* to offer a cash alternative in the near future[2] – and of company car drivers given the choice between a company car and cash allowance, 13% are likely to switch to cash allowance next time[3].

If the government is to achieve its major flagship policies in the *Road to Zero* and *Industrial Strategy*, the BVRLA believes that government needs to adjust the vehicle tax system in order to make the fleet sector sustainable. The BVRLA is of the view that any changes to manage the impact of WLTP should be based on the principles of:

- tax neutrality;
- need for certainty; and
- revenue protection for the Exchequer.

Consequently, the BVRLA offers the following recommendations to remedy the impact of WLTP:

a) *<u>Adjust future VED and company car tax bands for 2020 and beyond to account for the increase in WLTP-based CO_2 figures</u>*
To achieve the European Commission's objective of fiscal neutrality in the transition to WLTP, the BVRLA believes that a reduction in company car tax and VED is required and that this should be reflected in a revised April 2020 table. Instead of a rate reduction across the board, we would advise that HM Treasury should focus the reduction on smaller engine sized vehicles. Since the more polluting vehicles are already capped at the highest band, the unintended tax changes will be most felt by drivers of lower emission vehicles – sending the wrong signal when the government is trying to encourage greener car choices.

[1] Page 8, BVRLA and Steer Group – Rental Market Research 2018
[2] Sewells fleet decision-maker opinion survey
[3] Sewells company car driver opinion survey

b) *Provide a transition arrangement for pre-April 2020 vehicles – and freeze the rates at 2018/19 level*
This WLTP review considers the impact for cars first registered from April 2020 onwards only. However, there are cars registered pre-April 2020 with NEDC correlated values for which there isn't a CCT table beyond April 2021. Consequently, we believe it would be useful to have a legacy table to run off such cars and this table could extend up to 2025.

c) *Provide a 4/5-year view of future company car tax and VED bands, enabling fleets and drivers to plan their vehicle choices*
The lack of published CCT rates beyond 2021 is causing market uncertainty. To manage the lifetime cost of their vehicles, the average fleet or company car driver requires at least four to five years visibility on future CCT rates – this is because the average fleet renewal cycle is typically 4 years. Despite this, we note that the current published CCT rates do not extend beyond 2021 and this does need addressing urgently.

d) *Ensure that all CO_2-related taxes and charges (e.g. congestion zones, lease rental restriction) are treated consistently under WLTP*
There are other taxes such as lease rental restriction and capital allowance which are linked to a vehicle's CO_2 emission level. These are also affected by WLTP and any measures taken to address the impact on VED, and company car tax should be applied in a consistent manner to these types of taxes as well.

Consultation Questions

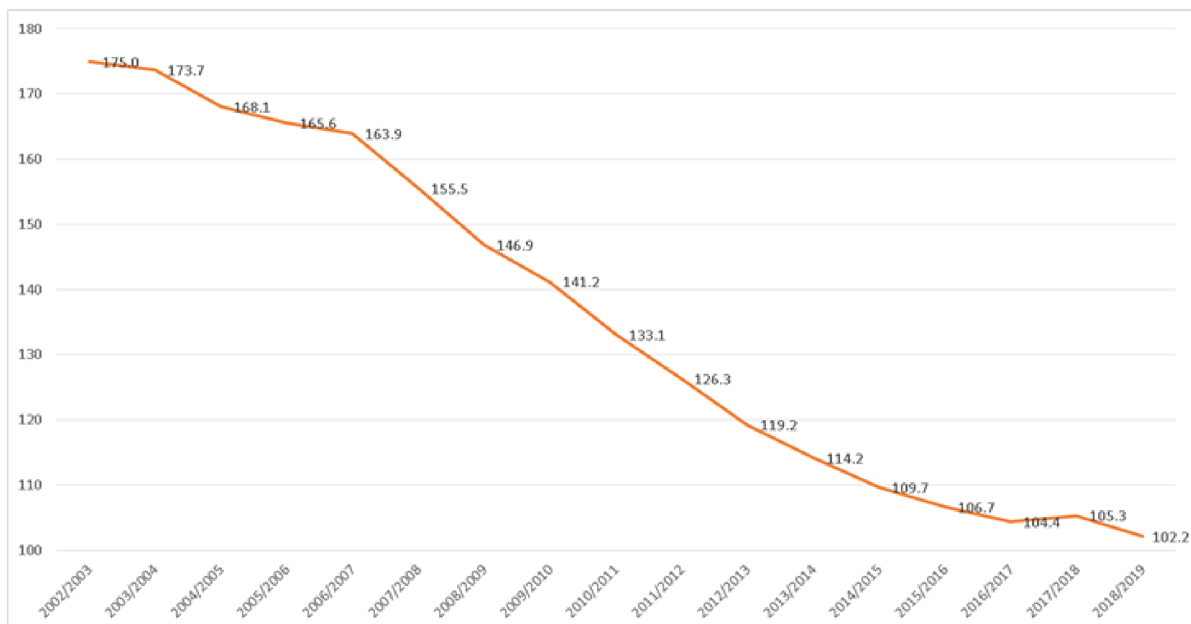
Question 3
How should the government balance the factors (a-e) outlined when considering whether to introduce changes to VED and company car tax on introduction of WLTP?

If the government is to achieve its ambition to see a positive impact on its climate change and air quality targets from the introduction of WLTP, it must make changes to VED and company car tax. This is to help make the company car market – a source of the cleanest, greenest vehicles – sustainable.

Fleets helping to de-carbonise road transport

Driving carbon reduction
Since 2002, Company Car Tax (CCT) has been calculated based on the vehicle's list price and CO_2 emissions and from the beginning BVRLA members have been at the forefront of driving down those CO_2 emission levels. The average emissions of a BVRLA-member provided company car have fallen year-on-year, reaching an average of 111g/km CO_2 at the end of the third quarter of 2018. These cars are vital for the drive towards lower emissions, with the average newly registered company car emitting 12% less CO_2 than its new privately registered car. Car rental vehicles, which will be most affected if no changes are made to VED, typically produce 26% less CO_2 than the average car on the road[4]. The rental sector typically replaces its fleet every six to nine months, boosting UK car registrations and feeding the used market with newer, cleaner vehicles.

Analysis by BVRLA member, Zenith, showed a 42% reduction in the CO_2 emissions for its fleet (from 175g/km to 102.20g/km) since the 2002/03 tax year - when this basis of calculation was introduced.



[4] Page 8, BVRLA and Steer Group – Rental Market Research 2018

Case study – helping NHS Trusts to de-carbonise

NHS Trusts

Salary sacrifice company Tusker works with many organisations helping them to reduce their fleet operation costs and CO_2 emissions through salary sacrifice schemes. NHS Foundation Trusts specifically have an important driver to provide their employees with incentives to move from older, more polluting to new, safe and cleaner cars. And the salary sacrifice option fits in well within their operations.

Tusker carried out research for nearly 50 NHS Trust customers that had replaced grey fleet with salary sacrifice cars. Tusker identified that cars on the salary sacrifice scheme are brand new and on average are replacing 7/8-year-old vehicles. They also noticed a reduction of 37% in average CO_2 emissions given that the new vehicles are much cleaner and fuel efficient. Out of the 552 vehicles analysed, new models included the plug-in hybrid Mitsubishi Outlander, the 100% zero-emission Renault Zoe and the range extender BMWi3.

A successful example of a Trust that decided to implement this solution is the Newcastle Upon Tyne Hospitals NHS Foundation Trust (NUTH). The Trust worked with Tusker to implement a salary sacrifice scheme of which approximately 13,000 employees are currently members. The scheme is open to staff across all sites both full time and part time who meet the Trust's minimum requirements for the scheme. At the time of preparing this case study, NUTH had a fleet of 863 cars and the feedback received from staff had exceeded expectations.

Source: Tusker Direct

Putting cleaner vehicles into the second-hand market

Due to the number of vehicles they purchase and the frequency of fleet replacement cycles, BVRLA members are key enablers for accelerating the adoption of low emission vehicles – extending through to the second-hand market. The leasing and rental sectors disposed of an estimated 1.4 million vehicles in 2017, accounting for nearly 1 in 5 used vehicle transactions in that year, thereby supporting activity at the UK's used vehicle auctions and dealerships. The majority of electric cars and vans coming on to the used market over the next few years will be former lease or rental vehicles.

Giving drivers access to newer, cleaner vehicles

The rental sector provides consumers and businesses with access to some of the very cleanest and newest vehicles on the UK's roads – with average emissions declining by 11% over a five-year period[5]. The price sensitive nature of this market means that it will be affected significantly by increases in VED due to WLTP transition. The BVRLA estimates that the rental sector will be responsible for 14% of the Office for Budget Responsibility's forecast increase in VED receipts of £200 million a year – meaning an additional cost of £28 million to the sector.

Given the rental business model revolves around a frequent fleet cycle, it means that the VED increases will be felt twice every year by those rental firms that operate a six to nine monthly cycle. The resultant impact is likely to be that these firms hold vehicles for much longer which delays the adoption of newer and cleaner technologies, while also depriving the used car market of the cleaner, greener vehicles the government wants to see on our roads.

[5] Page 9, BVRLA and Steer Group – Rental Market Research 2018

Carbon reduction success at risk if no tax changes are made

People are opting out of cleaner company cars into more polluting choices
Unfortunately, a sharp increase in the tax burden borne by company car drivers, coupled with the uncertainty and confusion arising from WLTP, is putting carbon reduction achievements at risk. An increasing number of employees are choosing to forego their company car in favour of a company provided 'cash allowance', which is taxed but gives employees the freedom to use the cash allowance to either finance their own car via a personal lease or use all or some of the money to purchase an older more polluting used car for business (also known as 'grey fleet'). Work by Sewells Research and Insight shows that 27% of businesses currently offering company car schemes are *very likely* to offer a cash alternative in the near future[6] – and of company car drivers given the choice between a company car and cash allowance, 13% are likely to switch to cash allowance next time[7].

Case study – Red Bull may opt out of company cars

Case study – Red Bull (216 company cars)

"Here at Red Bull UK the current uncertainty and contradictory messages has created the worst of both worlds for our drivers and our management.

"We have entered a position today where the business is almost paralysed due to the lack of reliable information on hand to make informed decisions on vehicle purchases for our business.

"We have deferred all car purchases in 2018 and cannot hold off any longer in Q1 2019 and may now consider widening the opt out for cash allowance for some roles.

"BIK has risen sharply on even our lowest diesel CO2 vehicles, and now for anyone taking a new car over four years they are entering the unknown for a part of this period. This impacts people even before we add in the new WLTP testing impact.

"We believe that the views of the industry appear to not have been heard which is why I am fully supporting this initiative to get a voice at this critical time with the Autumn Statement just weeks away now.

"The government risks shooting itself in the foot if they are not listened to as there will be a real risk that the move to opting out will lead to a massive downturn in taxes raised, as well as a potential to see CO2 rising again." – **David Oliver, Procurement Manager, Red Bull**

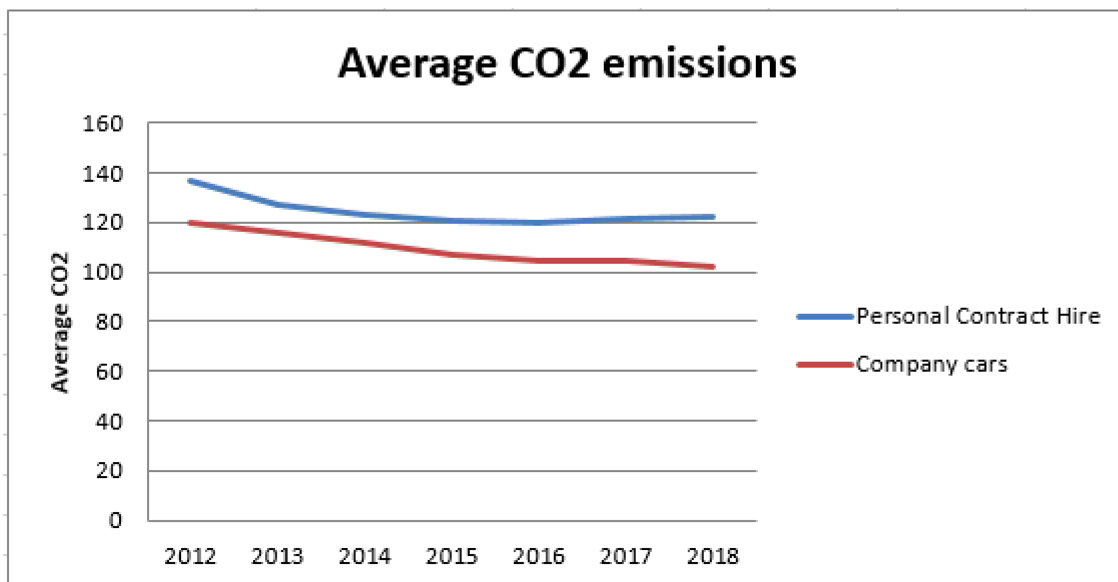
Source: Fleet News

The government should be concerned by these trends because of the adverse environmental impact. BVRLA data suggests that the average personal lease car emits 11% more CO_2 than a company car, while the average grey fleet car (138g/km) produces 22% more CO_2. Findings from research

[6] Sewells fleet decision-maker opinion survey
[7] Sewells company car driver opinion survey

undertaken on behalf of the BVRLA by the Energy Savings Trust (EST) – an organisation that was formed as part of the government's action plan in response to the 1992 Earth Summit – support our concerns regarding grey fleet. According to the research, "grey fleet and cash allowance cars are significantly higher in terms of emissions when compared to rental, car club, lease cars and vehicles in salary sacrifice schemes". The EST also estimated that "the amount of CO_2 emitted by grey fleet vehicles in the public sector is enough to fill Wembley stadium 56 times, while the CO_2 emitted by private sector grey fleet is equivalent to driving around the world 430,000 times".[8]

BVRLA member, Lex Autolease, tracked the environmental impact of its customers opting out of company cars over a seven-year period. They found that the company cars on its fleet produced 20% less CO_2 on average than personal lease cars.



Source: Lex Autolease

Given that company cars are the newest and cleanest vehicles on the UK's roads, the government – if serious about its climate change and air quality goals – should be doing all it can to keep drivers in this market, including using the tax system.

[8] BVRLA and Energy Savings Trust, Getting to grips with Grey Fleet, July 2016

Cleaner, greener vehicles are the most adversely affected by WLTP
As seen in table 2.B of the consultation document below, those driving smaller, less polluting cars are proportionately more disadvantaged than those driving bigger, more polluting vehicles under WLTP.

Table 2.B: Relationship between WLTP and NEDC: CO_2 emissions for cars

Passenger cars	Engine size	Ratio WLTP/NEDC
Petrol	All	1.22
	< 1.4L	1.24
	1.4-2.0L	1.15
	> 2.0L	1.07
Diesel	All	1.20
	< 1.4L	1.26
	1.4-2.0L	1.21
	> 2.0L	1.14

Source: European Commission Joint Research Centre (2017). From NEDC to WLTP: effect on the type-approval CO_2 emissions of light-duty vehicles

The tax system should influence behaviour towards less polluting vehicles and reward those drivers making this choice. However, under WLTP the driver choosing to do the right thing for the environment by choosing a less polluting vehicle appears to be penalised. Applying the WLTP/NEDC ratios in table 2.B above, we demonstrate below how these drivers are penalised in the tax system.

Ford Fiesta - engine size 1084		
	NEDC	WLTP
CO_2	101	125
BIK rate	21%	30%
Taxable value	£3,196.20	£4,566.00

Range Rover - engine size 2995		
	NEDC	WLTP
CO_2	248	265
BIK rate	37%	37%
Taxable value	£30,693.70	£30,693.70

The illustration above shows that despite the Range Rover driver polluting the environment more with their vehicle, the tax system 'rewards' them with no change in their tax liability. However, the Ford Fiesta driver will see a 42% increase in their tax liability, which appears to be a 'penalty' for following the environmentally friendly behaviour the government is calling for. Consequently, the BVRLA is calling for tax changes to be made to company car tax and VED to benefit vehicles with smaller engines, which are proportionately less polluting.

People holding onto older vehicles for much longer
In the consultation document, the government notes the potential for consumers to hold onto older cars for longer, with such cars being more polluting because of their higher CO_2 emission levels. The government is right to raise this issue as there is evidence to show that this is already happening. A recent survey of the automotive industry by Autovista Group found that 76% of fleet managers had

ordered fewer new cars due to WLTP[9]. BVRLA members can attest to this as their customers are extending their contracts, instead of renewing with new vehicle orders. Collectively, they have seen a rise in the number of contracts being extended to almost 1 in 14. By delaying renewing, there is also a knock-on impact on the second-hand market which will be deprived of newer, cleaner vehicles – which as stated earlier will mainly be EVs and plug-in hybrids in the next few years. Our view is that there will be a significant, adverse environmental impact that can only be managed through tax changes.

Question 4
Do you agree that, if the government makes changes to the vehicle tax system, the adjustment should be simple? If not, why?

As stated in our response to question 3, the BVRLA believes that government needs to make changes to the vehicle tax system – and we agree that the adjustment should be simple. We would also add that any tax changes should be based on the following principles:

- Fiscal neutrality
  - No taxpayer should pay more under WLTP than they would have under NEDC.
  - Taxpayers have already borne the burden of unintended tax rise as a result of NEDC to equivalent NEDC

- Need for certainty
  - The lack of published CCT rates beyond 2021 is causing market uncertainty
  - Four to five years visibility on future CCT rates is urgently needed to give the market stability

- Revenue protection for the Exchequer
  - The propensity to leave the company market has increased.
  - New vehicle orders are down from previous years.
  - Higher rate taxpayers are leaving the company car market.

The BVRLA's recommendation for resolving the tax impact of WLTP are provided below:

a) *Adjust future VED and company car tax bands for 2020 and beyond to account for the increase in WLTP-based CO_2 figures*
   To achieve the European Commission's objective of fiscal neutrality in the transition to WLTP, the BVRLA believes that a reduction in company car tax and VED is required and that this should be reflected in a revised April 2020 table. Instead of a rate reduction across the board, we would advise that HM Treasury should focus the reduction on smaller engine sized vehicles. Since the more polluting vehicles are already capped at the highest band, the unintended tax changes will be most felt by drivers of lower emission vehicles – sending the wrong signal when the government is trying to encourage greener car choices.

[9] Autovista Group - Top Challenges for the UK Automotive Industry 2018

Fuel type	Engine size	% of 2018 registrations
Petrol	<1.4L	14.0%
	1.4L - 2.0L	11.0%
	2.0L+	1.0%
Diesel	<1.4L	1.0%
	1.4L - 2.0L	71.0%
	2.0L+	3.0%

The fleet profile of BVRLA members – shown in the table above – is evidence that the government will have a greater chance of success meeting its climate change and air quality goals if it makes tax changes that benefit cars with smaller sized engines.

b) *Provide a transition arrangement for pre-April 2020 vehicles – and freeze the rates at 2018/19 level*

This WLTP review considers the impact for cars first registered from April 2020 onwards only. However, there are cars registered pre-April 2020 with NEDC correlated values for which there isn't a CCT table beyond April 2021. Consequently, we believe it would be useful to have a legacy table to run off such cars and this table could extend up to 2025.

In devising such a transition or legacy table, we would urge HM Treasury to freeze CCT at 2018/19 rates for all cars registered on or before 1 April 2018. These vehicles have also seen CO_2 values go up – in some cases up to 17 percent higher than existing NEDC values for comparable cars. The impact of this change has meant some vehicles have moved four bands higher on the CCT table, resulting in an unintended tax rise for drivers – and therefore, the rates should therefore be frozen at 2018/2019. We would also highlight for a smooth and orderly transition, so as to avoid market distortion which could arise from drivers seeking to opt out of company cars early in order to avoid a tax hike.

c) *Provide a 4/5-year view of future company car tax and VED bands, enabling fleets and drivers to plan their vehicle choices*

The lack of published CCT rates beyond 2021 is causing market uncertainty. To manage the lifetime cost of their vehicles, the average fleet or company car driver requires at least four to five years visibility on future CCT rates – this is because the average fleet renewal cycle is typically 4 years. Despite this, we note that the current published CCT rates do not extend beyond 2021 and this does need addressing urgently.

The lack of visibility on future rates is having an adverse impact on procurement decisions since the fleet customer has no certainty on how much BIK they will be paying over the lifetime of the lease, were they to enter into an agreement now. The uncertainty created by the lack of visibility on future rates, along with the confusion and unintended tax rise from the WLTP transition, are contributing to employees and employers opting out of the company car market.

d) *Ensure that all CO_2-related taxes and charges (e.g. congestion zones, lease rental restriction) are treated consistently under WLTP*

There are other taxes such as lease rental restriction and capital allowance which are linked to a vehicle's CO_2 emission level. These are also affected by WLTP and any measures taken to address the impact on VED, and company car tax should be applied in a consistent manner to these types of taxes as well.

Lease Rental Restriction

The current 15% disallowed threshold for lease rental restriction should be reviewed to reflect the use of WLTP CO_2 values to ensure tax neutrality.

Capital Allowance

The main pool threshold, currently 110g/km, should be reviewed to reflect the use of WLTP CO_2 values to ensure tax neutrality. As a result of the increase in WLTP values, BVRLA members are reporting that a greater number of vehicles are falling into the special rate pool, which from our analysis could take up to 20 years to fully recover, by which time the vehicles would have been disposed of. This no longer serves as an incentive.

Vehicle Excise Duty (VED)

The CO_2 values for the VED First Year Rate should be adjusted to reflect the unintended tax rise in 2019 caused by WLTP values.

In highlighting the need for consistency of approach, we would also urge that the government ensures there is parity on the electric mile range under NEDC and WLTP – particularly as reduced electric miles potentially could push drivers up three to four bands on the tax table.

Closing Comments

We are grateful for the opportunity we had to discuss this review with HM Treasury officials, ahead of making a formal submission. We trust that the comments provided by the BVRLA on behalf of its members are helpful. Should it be useful, we would be happy to provide any additional information, or have a follow-up meeting with relevant officials.

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