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Dear Su

Changes to Optional Remuneration Arrangements rules for taxable cars and vans

Thank you for the recent opportunity to voice our concerns about the impact of the proposed changes to you and other HMRC colleagues. We are formally writing on behalf of the rental and leasing sector to call for transitional arrangements for all those employees who are doing the right thing by choosing to use greener cars for work. The arrangements should cover agreements entered into (on or after 6 April 2017) before the draft legislation was published on 6 July 2018.

Putting in place transitional arrangements will help to mitigate the financial impact of the changes on employees who pay basic rate of tax, as they are the group who will be most affected. In its 2016 report (copy enclosed), Oxford Economics estimated that 75% of the salary sacrifice market – made up of 70,000 cars – comprised of basic rate payers.

Furthermore, industry estimates suggest that those drivers affected could be paying between £120-£384 a year in additional taxes. For the majority of basic rate tax payers who enter into these arrangements – some of whom are public sector workers who have been on an eight-year pay cap – it could have an impact on their quality of life. The additional tax burden is unforeseen as these drivers had relied upon previous HMRC guidance, ahead of entering into their agreements. If unable to continue affording these payments, some could opt for an early termination, which would involve penalty charges.

Reflecting their modest pay, most basic rate taxpayers opt for low value cars in the 75-100g/km CO2 range since – in its current form – is the most tax efficient for the group. Therefore, the changes being proposed in the draft legislation could disincentive lower earners from opting for cleaner cars, which help achieve Government's wider environmental aims of reducing CO2 levels, and instead opt for much older, more polluting second-hand vehicles. Therefore, in the absence of transitional arrangements there is a likelihood that some of the hard-won environmental gains could be lost.

As is to be expected, there will be a cost to businesses for systems changes and development, which will vary from company to company. A BVRLA member estimates an initial outlay in the region of £0.25m for the first year of the introduction of the changes, with further costs incurred in subsequent years. Putting in place transitional arrangements will be helpful in mitigating some of these unforeseen business costs.

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In summary, the key impact of not providing transitional arrangements include:

- an unforeseen tax burden on low earners
- a potential early termination of agreements, which comes at a cost
- an administrative cost to business
- an adverse environmental impact as drivers opt for older, more polluting second-hand vehicles

We would urge that any transitional arrangements should be in place till April 2019 when the new legislation comes into effect, in order to give businesses time for system calculation changes and deployment.

I trust that our comments are helpful in highlighting the need for transitional arrangements and we would be happy to provide any additional information, if necessary.

Yours sincerely



Jinmi Macaulay
Senior Policy Advisor

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 900+ 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.