Company cars – what’s going on?

Employment Tax | Tax voice



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David Chandler looks at the changing world of company cars and whether an electric fleet could be the future

Most people entering the tax profession like the fact things change – we have an annual Budget (sometimes more than one!) and the tax playing field never sits still. However, the pace of change over the last 3 years in the company car/employment tax space has been somewhat unprecedented! We have had such a sustained period of uncertainty and change, with many signs that this will not stop.

The recent headline is that the Government have announced plans to consult on stopping the sale of all new cars with Internal Combustion Engines (“ICE”) with effect

from 2035, with an additional suggestion that they may bring forward that date to 2032.

To illustrate the sheer scale of the challenge – there are 33 million vehicles on the road currently. Obviously, the new rules would apply only to new vehicles sold. However, in 2019, the total number of cars sold was 2.3 million. Battery Electric Vehicles ("BEVs") accounted for just 1.6% of those sales last year – so we clearly have a long way to go in a 'relatively' short time to meet that Government aim of banning all new ICE cars.

What have been the issues in the last 3 years?

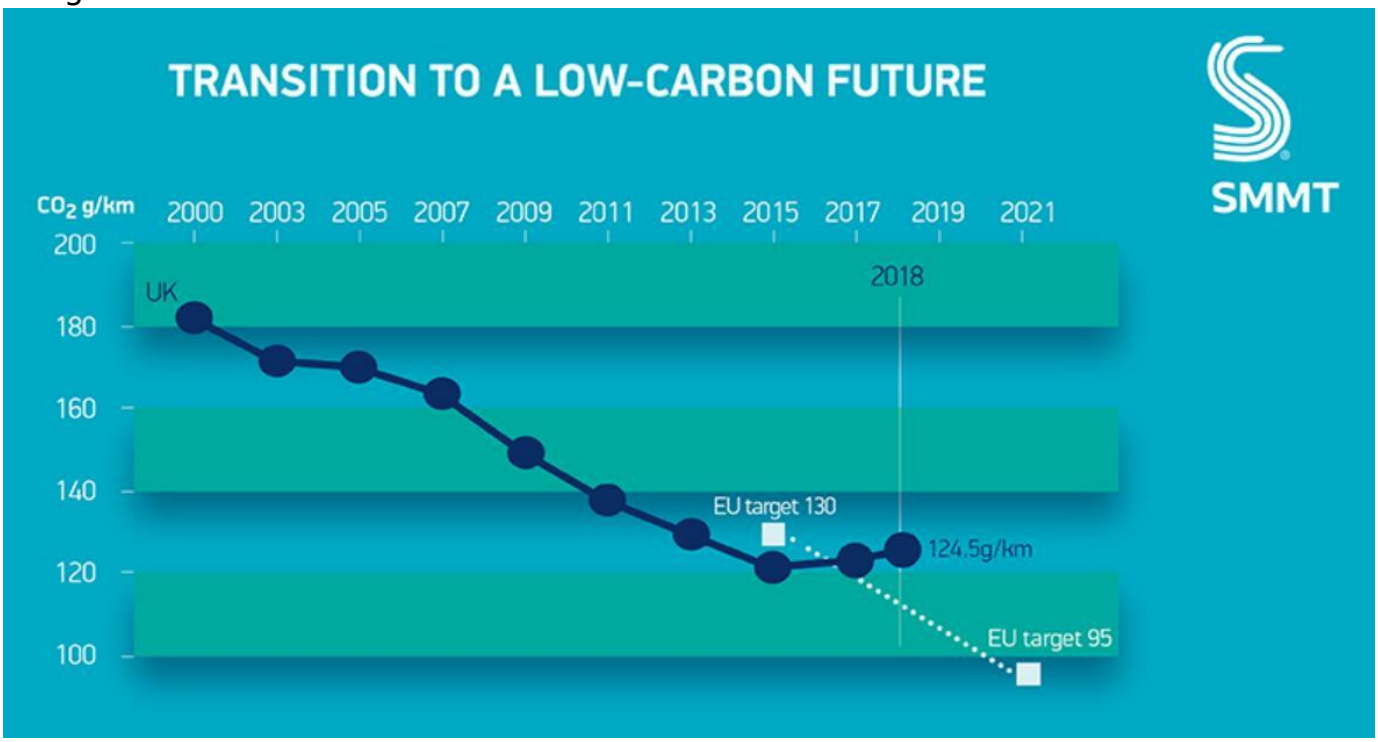
There have been several aspects which have impacted the company car market.

Over the last 3 years tax rates have increased substantially, so a Diesel VW Passat (with CO2 emissions of 106 g/km) currently has a 29% BiK (Benefit in Kind) charge (2019/20). This is a fairly typical business need company car and not in any way extravagant or considered a 'gas-guzzler'. Four years ago the scale charge on that car was 19%, which represents an increase in tax of over 50% in 4 years.

According to the latest statistics from HMRC (admittedly these are from 2017/18 tax year) there are 840,000 company cars in the UK, a number which has decreased as the scale charges on ICE company cars has increased. Given BEVs are arguably not (yet!) the solution for many business-need fleets, companies are struggling to provide cost effective vehicles under the existing company car regime. What this has meant is we have seen employees opting out of company cars, taking cash alternatives and then picking their own choice of cars outside the CO2 restrictions of the company car tax system.

This appears to have contributed to CO2 emissions from new cars now increasing. Over the last 3 years the CO2 emissions on new car sales have actually increased after spending the previous 15 years declining (since 2002 and the introduction of the CO2 based taxation system). Last year, the CO2 increased to 127g/km according to the latest SMMT report (manufacturers have to meet a European wide average of 95g/km!). This result has been blamed by some on an increase in employees choosing petrol vehicles and larger SUV models, both of which have higher CO2 than diesel vehicles.

Image



In addition, due to the emissions scandal, the testing regime for cars has moved from NEDC (New European Driving Cycle) to WLTP (Worldwide harmonised Light Vehicles Testing Procedure). Essentially this means vehicles are now tested in real world conditions. Due to the way these rules have been introduced this has had the effect that the CO2 has increased twice. The first time was in September 2018 when the concept of NEDC 'correlated' ("NEDCc") was introduced (Test results were derived under WLTP but then correlated back to an NEDC figure). Secondly, from 6 April 2020 another increase is coming as we switch to WLTP, when the new rules mean (at the time of writing) a large proportion of cars' CO2 emissions are rising once again, some substantially.

The Government has sought to offset this 2020 increase due to WLTP and following consultation announced that for cars first registered from 6 April 2020, most company car tax rates will be reduced by 2% in 2020-21, 1% in 2021/22 before returning to planned rates in 2022-23.

What does this mean? That VW Passat above? The new WLTP figure is 134g/km, up from 106g/km. Provided that the car is RDE2 compliant, the charge, if registered after 6 April 2020, is actually 28% in 2020/21, then 29% and 30% in 2022/23 (if it isn't RDE2 compliant that Passat will be 32% going up to 34%).

What about the Electrics?

Good news! As part of the reduction announced last summer, electric cars will attract a 0% scale charge for the 2020/21 tax year. For plug-in hybrid electric vehicles ("PHEV") there will be a sliding scale based on the electric only range of the car. If a car can travel 40 miles on the electric only charge, the scale charge will be 6% of list price.

This is great news and provides a welcome incentive for the move to electric vehicles which is clearly the future aim for the Government.

In addition to the attractive tax rule changes, between 1st April 2020 and 1 April 2021, when a company purchases a brand new electric car outright or through a contract purchase, it will qualify for 100% first-year allowance as a result of changes made to section 45D Capital Allowances Act 2001.

What are the practicalities of an electric fleet?

Given the remit of this article is around the taxation side I won't comment too much on the other aspects of electric car provision, some of which are fiercely debated. However, some of the practical considerations arguably include:

- Cost – generally, electric vehicles remain currently more expensive than their ICE counterparts. That cost is expected to reduce as technologies improve over time.
- Supply – 1.6% of new vehicles last year were electric – this is limited by the manufacturers supply, not by demand. Manufacturers need to produce more vehicles supplied to the UK in order to meet the demand.
- Battery technology – again, this is expected to improve as manufacturers invest in electric vehicles.
- Cobalt production – one of the main components of batteries is cobalt and there are concerns how the world can produce enough ethically mined cobalt in order to produce the required amounts of batteries in sufficient quantities for electric vehicles to become more mainstream.
- Range anxiety – the majority of new electric models can travel 200 miles + which is sufficient for most journeys. However, longer journeys have to be planned around recharging and this can be troublesome (broken chargers, limited availability, and the time charging can take).

- Infrastructure – there are a huge number of charging points around the UK and this increases every month. However, as a country we still need serious investment to allow mainstream charging for electric vehicles.

Did someone say salary sacrifice?

Most readers will be aware of salary sacrifice schemes. In Finance Act 2017, the introduction of Optional Remuneration Arrangements (“OpRA”) closed the tax advantage for the majority of salary sacrifice benefits except a few items, including low emission company cars.

The Government state that OpRA does not apply to cars with emissions of 75g/km or less as they are an excluded benefit under OpRA by reason of S228A ITEPA 2013. Therefore, given the low tax charge, as supply becomes available, salary sacrifice into BEVs could become an attractive benefit to encourage the take up of electric vehicles.

Summary

Clearly electric vehicles are the future and the Government policy is designed to encourage that to happen as soon as possible. However, companies, and employees, will need to balance the tax incentives alongside the practical considerations of implementing electric vehicles into fleets as we transition to a low carbon future.

One thing is for sure, the next ten years will continue to be very interesting in the world of cars, taxation and technology.