Company car tax for ultra-low emission cars

Employment Tax

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The government is reforming the company car tax rates and bands for ultra-low emission vehicles (ULEVs) from 2020/21. A typical company car is retained for around three years. Consequently, any changes introduced from 2020/21 may affect company car choices made in the next couple of years.

HM Treasury published a consultation document in August 2016 seeking views on the design of company car tax bands for ultra-low emission vehicles (ULEVs) from 2020/21 onwards.

In response, the CIOT says that given the evidence of the effect of CO2 bands since 2002 in shaping behaviour in selecting company cars over the last 15 years ('that company car tax rates help to facilitate the move to cleaner cars'), we think the government should continue to frame the company car tax system to encourage the use of ULEVs, so that ultimately 'by 2050 nearly all cars in the UK fleet should be zero emission vehicles'.

The consultation asks whether CO2 emissions should be the sole basis for ULEV bands in the company car tax structure from 2020/21 onwards or whether other factors, such as a car's zero emission mileage range, be taken account and whether there should be more/less bands in the company car tax structure.

In response, we say that if there is a good correlation between CO2 emissions and zero emission mileage then the government should retain CO2 emissions as the sole basis for taxing new ULEVs bands. If, however, there is not a good correlation between the two, and the government considers that both are equally important, then it would be logical to start with CO2 emissions and adjust the company car tax percentage down/up for a greater/smaller number of zero emission miles.

We add that if the government wants to then incentivise the very cleanest ULEVs then, logically, the closer CO2 emissions are to zero, the lower the company car tax appropriate percentage should be. We suggest that this could be achieved through continuous, narrower, bands for CO2 emissions of between 0 and, say, 50 g/km. The more sensitive company car tax is to CO2 emissions and, as appropriate, zero emission miles (for example by lowering the percentage point for higher zero emission mileage), the greater the incentive for manufacturers, employers and employees to develop and choose lower CO2 emission vehicles.

We also raised concerns with the government's separate proposals in respect of the tax treatment of salary sacrifice which we think are likely to dis-incentivise employees from opting for the cleanest emissions cars. In particular, we believe that the government's proposals on salary sacrifice would break the very link (that is cheaper tax rates helping employers and employees to choose cleaner cars) that the consultation on company car tax for ULEVs identifies as working so well in shaping the move to cleaner cars in the UK. We think breaking this link would be a mistake.

The government is expected to announce its decision on changes to the bands for ULEVs from 2020/21 in the autumn.

The full CIOT response can be found on the CIOT website.