Finance Bill 2024-25: ATT briefings

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The ATT submitted Finance Bill briefings highlighting a sharp increase in the taxation of hybrid company cars, questioning the value of first year allowances for electric vehicle charging points, and raising a key concern regarding reforms to the taxation of non-UK domiciled individuals.

Hybrid cars

Clauses 5 and 6 of the Finance Bill set out the benefit in kind percentages for company cars which will apply from 2025-26 until 2029-30. The *appropriate percentages* for petrol and diesel cars will rise by 1% per year during that period. However, employees driving hybrid vehicles may be in for a shock, as might their employers.

Under current rules, the benefit in kind charge for hybrid company cars with CO2 emissions of 1-50 g/km is based on their electric-only range – the further the car can travel on electric power only, the lower the benefit in kind charge.

Under clauses 5 and 6, the electric-only range will no longer be relevant from April 2028, with the benefit in kind rate being based purely on the emissions level. For the most efficient hybrid cars, this will result in an overnight increase in the appropriate percentage from 5% to 18% in April 2028. The benefit in kind charge for a higher rate taxpayer driving a £40,000 hybrid company car would increase by £2,000 in 2028-29 compared with the previous year, whilst their employer's Class 1A NIC liability would increase by £780 compared with 2027-28.

The ATT highlighted this issue due to concerns that these changes could take employers and employees by surprise. The relevant Finance Bill clauses do not refer specifically to hybrids, so their full impact may not be immediately apparent.

First year allowances for electric vehicle charging points

Current provisions enabling first year allowances (FYA) to be claimed on electric vehicle charging points were due to expire on 31 March 2025 for corporation tax purposes and 5 April 2025 for income tax businesses. Clause 24 extends the measures by one year for all businesses.

The ATT has queried the necessity of this clause on the basis that tax relief for vehicle charging points is also available via the annual investment allowance, or full expensing. Whilst full expensing is only available to limited companies, the majority of unincorporated businesses do not exceed their £1 million annual investment allowance limit, so would be able to deduct the cost of electric vehicle charging points in full without the need to claim under FYA.

The extension to FYA therefore appears to add complexity to the tax code for no practical benefit in most cases. The ATT suggested a review of the number of claims made for both income tax and corporation tax, and that the measure should be allowed to expire in 2025 if neither is found to be significant.

Reforming the taxation of non-domiciled individuals: loss of personal allowance and annual exempt amount

A key part of the measures reforming the taxation of non-domiciled individuals is the introduction of the foreign income and gains (FIG) regime for eligible individuals during their first four years of UK residence.

Under the FIG regime, claims can be made to relieve foreign income, foreign gains or foreign employment income from UK taxation, or a combination of all three. Claiming any one of these reliefs will result in the loss of both the income tax personal allowance and the capital gains tax annual exempt amount.

Whilst these consequences are comparable with the current remittance basis of taxation, the ATT has argued that the loss of both personal allowance and annual exemption is unfair, since overseas income and capital gains may well be unrelated both to each other and to UK-source income and gains. For instance, denying a personal allowance because a taxpayer claims relief for offshore gains would increase their marginal rate of income tax due on UK-source income.

Under the FIG regime, each of the above three claims to relief has to be made individually, offering scope to tailor entitlement to the personal allowance and annual exemption based on the relevant claim(s) made. That flexibility does not exist under the remittance basis, which applies to offshore income and gains together.

The ATT suggests that the effect of making a relevant claim under the FIG regime should be limited to the tax in question. For instance, claiming relief for foreign income under the FIG regime might understandably remove entitlement to a personal allowance for income tax purposes, but should not affect the availability of an annual exemption for capital gains tax. Equally, whilst claiming relief for foreign capital gains removes entitlement to the capital gains tax annual exempt amount, the income tax personal allowance should not be affected.

This point was one of several concerns raised by the ATT in its wider response to the legislation reforming the taxation of non-domiciled individuals (www.att.org.uk/ref472).

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