EXPLANATORY MEMORANDUM TO

THE VAN BENEFIT AND CAR AND VAN FUEL BENEFIT ORDER 2014

2014 No. 2896

1. This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs on behalf of Her Majesty's Treasury and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

2.1 With effect from 6 April 2015, this instrument increases the figure in section 155(1)(b) of ITEPA which represents the cash equivalent of the benefit of a van received by an employee, from £3,090 to £3,150.

2.2 With effect from 6 April 2015, this instrument increases the multiplier, the figure provided for in section 150(1) of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) used to calculate the cash equivalent of the benefit of car fuel received by an employee, from £21,700 to £22,100.

2.3 With effect from 6 April 2015, this instrument increases the van fuel benefit figure provided for in section 161(b) ITEPA from £581 to £594.

3. Matters of special interest to the Select Committee on Statutory Instruments

3.1 None

4. Legislative Context

4.1 This Instrument is made by Her Majesty's Treasury under the order-making power provided in section 170(1A), (2), (5) and (6) of ITEPA.

Van benefit charge

4.2 Where an employee is provided with a van by reason of his or her employment and the employee uses the van for their private use, there is a chargeable benefit-in-kind generally known as the van benefit charge. Use is considered to be private for these purposes where the van is used other than for the purposes of ordinary commuting or business travel, and where the other use is not insignificant. The cash equivalent of the benefit is a flat rate figure provided for in section 155(1)(b) ITEPA.

4.3 The current system for valuing the benefit to employees in respect of vans made available for private use which is not insignificant was introduced by section 80 and paragraphs 1 and 5 Schedule 14 of the Finance Act 2004. For tax years 2005-06 and

2006-07, the cash equivalent was £500 if the van was less than 4 years old at the end of the relevant tax year and £350 if it was older. Finance Act 2004 also set the cash equivalent at £3,000 for all vans, irrespective of age, with effect from 2007-08. The Van Benefit and Car and Van Fuel Benefit Order 2013 increased the cash equivalent to £3,090 for 2014-15.

4.4 This instrument increases the van benefit charge from £3,090 to £3,150 with effect from 6 April 2015.

Car and Van Fuel Benefit Charge

4.5 Where an employee, to whom the car or van benefit charge applies, receives fuel from their employer or otherwise by reason of their employment, there is a taxable benefit in kind generally known as the fuel benefit charge (provided for in section 149 ITEPA for cars and section 160 ITEPA for vans).

4.6 For cars, the cash equivalent of the fuel benefit charge is calculated by applying the appropriate percentage (normally based on the car's CO_2 emissions) to a notional annual value (the multiplier) for the fuel. This calculation was introduced by section 34 of the Finance Act 2002 and replaced previous fuel scale charges. The multiplier was originally set at £14,400 for the years 2003-04 to 2007-08 and was increased over the years to £21,700 for 2014-15. The fuel benefit charge reflects a notional value for the fuel made available for private mileage.

4.7 For vans, the cash equivalent of the fuel benefit charge is a fixed sum provided for in section 161 ITEPA. The provision of a fixed sum for valuing the benefit of fuel provided by an employer for private use in a van subject to the van benefit charge was introduced by section 80 of the Finance Act 2004. This was originally set at £0 for the years 2005-06 to 2006-07, £500 for the years 2007-08 to 2009-2010 and then increased over the years to £581 in 2014-15.

4.8 This instrument increases the multiplier in respect of fuel for cars from £21,700 to £22,100 with effect from 6 April 2015, and the taxable benefit in respect of fuel for vans from £581 to £594, also with effect from 6 April 2015.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Exchequer Secretary to the Treasury has made the following statement regarding Human Rights:

"In my view the provisions of The Van Benefit and Car and Van Fuel Benefit Order 2014 are compatible with the Convention rights."

7. Policy background

- **What is being done and why**

7.1 The instrument implements an uprating measure announced as part of Budget 2014, when the Government announced that the cash equivalent of a van benefit, the car fuel benefit multiplier and the fuel benefit charge for vans will increase in line with inflation (based on RPI) in 2015-16. This instrument must come into force on 31 December 2014 to ensure the correct figure is available for the 2015-16 PAYE coding process in January 2015.

Van Benefit Charge

7.2 The changes are consistent with the Government's broader objective of ensuring users of company vans make a fair contribution to the public finances.

7.3 Increasing the van benefit charge will strengthen the disincentive to undertake unnecessary driving. The cash equivalent may be reduced if the employee makes payments for private use of the van to reduce their van benefit charge liability.

Car and Van Fuel Benefit Charge

7.4 The changes are consistent with the broader environmental objective of encouraging a transition to lower-carbon transport by using tax changes to incentivise the use of lower-emitting company cars and vans. The changes are also consistent with the Government's broader objective of ensuring users of company cars and vans make a fair contribution to the public finances.

7.5 It was announced in Budget 2008 that the car fuel benefit charge multiplier would increase at least in line with inflation each year. The Government has decided to continue this policy approach. Increasing the car fuel benefit charge multiplier and the van fuel benefit charge will strengthen the disincentive behind unnecessary driving. Employees who do not wish to pay this charge can simply opt out of receiving free fuel and instead buy their own fuel, which will minimise unnecessary driving. There are also existing provisions for reclaiming the cost of business mileage in private cars.

8. Consultation outcome

8.1 Consultation was not appropriate as this is an uprating measure.

9. Guidance

9.1 The change was announced at Budget 2014 and the relevant HM Revenue and Customs guidance will be amended in line with this Order.

10. Impact

10.1 The impact on business, charities or voluntary bodies is expected to be negligible.

10.2 No impact on the public sector is foreseen.

10.3 A Tax Information and Impact Note has not been prepared for this Instrument as it gives effect to previously announced policy and the increase is in line with inflation.

11. Regulating small business

11.1 The legislation applies to small business. We are satisfied, however, that the regular contact we have with industry groups includes representatives of small business. There is no indication that they would have any difficulty in implementing the change, which will be implemented by a change of employee tax code notified to employers.

12. Monitoring & review

12.1 This policy will be monitored and assessed alongside other measures in the Government's package of personal tax and benefits changes.

13. Contact

13.1 Alastair Dougans at HM Revenue and Customs, tel: 03000 584745 or email: employmentincome.policy@hmrc.gsi.gov.uk, can answer any queries regarding the instrument.