EXPLANATORY MEMORANDUM TO

THE VAN BENEFIT AND CAR AND VAN FUEL BENEFIT ORDER 2025

2025 No. 1254

1. Introduction

1.1 This Explanatory Memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) on behalf of His Majesty's Treasury and is laid before the House of Commons by Command of His Majesty.

2. Declaration

2.1 Dan Tomlinson, Exchequer Secretary to the Treasury at His Majesty's Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Philip Batchelor, Deputy Director for Income Tax Policy, at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Brendan Allitt at HMRC can be contacted by email at the following address with any queries regarding the instrument: brendan.allitt@hmrc.gov.uk. Alternatively, the department can be contacted by telephone: 03000 559833.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 Where an employer either provides fuel which is used for private mileage in a company car or van or provides a van which is used for private mileage, such benefits are taxable. The amount on which tax is charged is updated by legislation, and the purpose of this instrument is to increase charges in line with inflation as outlined in section 6 below which will have effect from 6 April 2026.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 The Government announced at Autumn Budget 2025 that the van benefit charge and the car and van fuel benefit charge would be increased in line with inflation based on the Consumer Prices Index for September 2025. The Statutory Instrument that accompanies this Explanatory Memorandum implements that commitment.

Van Benefit Charge

5.2 The charges are consistent with the Government's broader environmental objective of encouraging a transition to low-carbon transport, by incentivising the use of zero-

emission vans. The changes are also consistent with the Government's broader objective of ensuring that those who use company vans for private use purposes make a fair contribution to the public finances.

Car and Van Fuel Benefit Charges

5.3 Employees who do not wish to pay this charge can opt out of receiving free fuel for private use and instead buy their own fuel or make good in full the cost of fuel provided by the employer for private use.

What was the previous policy, how is this different?

5.4 The van benefit charge and the car and van fuel benefit are subject to inflation-based increases. At Autumn Statement 2024, the charges were increased in line with September 2024 Consumer Prices Index.

6. Legislative and Legal Context

How has the law changed?

6.1 This instrument is made by His Majesty's Treasury under the order making powers provided in section 170(1A) (c), (2), (5) and (6) of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA).

Van Benefit Charge

6.2 The current system for valuing the benefit to employers for a van made available for the private use was introduced by section 80 of, and paragraphs 1 and 5 of Schedule 14 to, the Finance Act 2004.

6.3 This instrument provides for an annual uprating of the van benefit charge by amending section 155(1B)(b) of ITEPA with effect from 6 April 2026. The flat-rate figure which represents the cash equivalent of the benefit of a van provided to an employee will increase from £4,020 to £4,170.

Car and Van Fuel Benefit Charge

6.4 For cars, the cash equivalent of the fuel benefit charge is calculated by applying the appropriate percentage (normally based on the car's CO2 emissions) to a notional annual value (the multiplier) for the fuel made available for private use. This calculation was introduced by section 34 of the Finance Act 2002 and replaced previous fuel scale charges.

6.5 For vans, the cash equivalent of the fuel benefit charge is a flat-rate figure. 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, and paragraphs 1 and 5 of Schedule 14 to, the Finance Act 2004.

6.6 This instrument provides for an annual uprating of the fuel benefit charges in line with inflation by amending sections 150(1) and 161(b) of ITEPA with effect from 6 April 2026. The notional annual value (multiplier), which is used in combination with the appropriate percentage to calculate the cash equivalent of the benefit of car fuel for private use provided to an employee with a company car, will increase from £28,200 to £29,200. The flat-rate figure which represents the cash equivalent of the benefit of fuel provided for private use in a van will increase from £769 to £798.

Why was this approach taken to change the law?

6.7 This is the appropriate approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

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

8. Applicable Guidance

8.1 The changes were announced at Autumn Budget 2025 and the relevant HMRC guidance will be amended in line with this order. Guidance can be found on the gov.uk website[1].

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note covering this instrument will be published on the gov.uk website.[2]

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies because this is a routine uprating of the charges.

9.3 The legislation does not impact small or micro businesses.

9.4 There is no, or no significant, impact on the public sector.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is to review as appropriate within the context of the wider tax framework.

10.2 The instrument does not include a statutory review clause because of a tax exemption in section 28(3)(a) of the Small Business, Enterprise and Employment Act 2015.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 The Exchequer Secretary to the Treasury (Dan Tomlinson) has made the following statement regarding Human Rights:

"In my view the provisions of the Van Benefit and Car and Van Fuel Benefit Order 2025 are compatible with the Convention rights."

[1] Expenses and benefits for directors and employees - a tax guide: www.gov.uk/government/collections/expenses-and-benefits-for-directors-and-employees-a-tax-guide-480

[2] Tax Information and Impact Note: https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 (“relevant European Union Acts”).