

THE NEW COMPANY CAR TAX RULES

From 6th April 2002 there will be no discounts for business mileage driven. The new system will be based on a percentage of the car's list price graduated according to its carbon dioxide (CO₂) emission. It will apply to most cars from 2002 (exceptions below), which means that most drivers provided with new cars now will be taxed under both the old (i.e. current) system and the new system.

The tax charge will be based on a percentage of the car's list price (as it is now), and the highest charge will be a 35% rate and the lowest charge will be a 15% rate (as they are now).

WINNERS AND LOSERS

The drivers who are likely to be the biggest losers are those who currently drive 18,000 business miles or more per year. They are currently paying a tax charge based on 15% of their car's list price and so they cannot be better off under the new regime and will have to drive one of the very cleanest cars just to stay neutral.

The winners are likely to be the `perk` car drivers, whose tax charges are currently based on 35% of the list price of the car. They cannot be any worse off under the new system even if they are driving the most polluting vehicles.

The band of drivers covering between 2,500 and 18,000 business miles per annum will contain both winners and losers under the new system, depending on the level of emissions of their new cars.

Since CO₂ is the major greenhouse gas, the government proposes to base the new regime of grams of CO₂ emitted per kilometre, since this is a simple system. By 2002, it is expected that this information will be readily available for most company cars. A calculation will only need to be made once when the car is first used as a company car, and this can then be used as the basis of the tax charge each year that the car is used.

SCALE CHARGE CALCULATOR

The current proposals for 2002/2003 are that the 15% tax charge will only apply to cars emitting less than 165 grams of CO₂ per kilometre, increasing at a rate of 1% for each 5 grams per kilometre up to a maximum of 35% for emissions in excess of 265 g/km.

Note: The given CO₂ emissions figure for a car should be rounded down to the nearest 5 grams per kilometre. For example: (i) an emissions rating of 169 g/km will be charged at 15% in 2002/2003, 17% in 2003/2004 and 19% in 2004/2005 and (ii) an emissions rating of 209 g/km will be charged at 23% in 2002/2003, 25% in 2003/2004 and 27% in 2004/2005.

Scale Charge Calculator

<u>g/km of CO₂</u>			<u>% of List Price</u>
<u>2002/2003</u>	<u>2003/2004</u>	<u>2004/2005</u>	
165	155	145	15*
170	160	150	16*
175	165	155	17*
180	170	160	18*
185	175	165	19*
190	180	170	20*
195	185	175	21*
200	190	180	22*
205	195	185	23*
210	200	190	24*
215	205	195	25*
220	210	200	26*
225	215	205	27*
230	220	210	28*
235	225	215	29*
240	230	220	30*
245	235	225	31*
250	240	230	32*
255	245	235	33**
260	250	240	34***
265	255	245	35***

Diesel Supplements

- * add 3% if car runs solely on diesel
- ** add 2% if car runs solely on diesel
- *** add 1 percent if car runs solely on diesel
- **** Maximum charge so no diesel supplement

Susan has a company car. She drives 12,000 business miles in each tax year. Her car emits 202 grams of CO2 per kilometer driven, and has a list price of £23,450. She is a 40% tax payer.

Example

	<u>2001/2002</u>	<u>2002/2003</u>
Car List Price	£ £23,450	£ 23,450
Percentage charge for business mileage between 2,500 and 17,999	25%	
Percentage Charge of 202 g/km		22%
Benefit in Kind	5,862	5,159
Tax Payable at 40%	£2,345	£2,064

Diesel Cars

The system clearly benefits diesel cars since they have generally lower CO2 emissions than petrol cars. However, the particulates from diesel engines have contributed to an increase in respiratory illnesses such as asthma. The new rules deal with this anomaly but aim to keep the new regime simple and straightforward, by adding a flat rate increase of 3% to the figure used to calculate a car's benefit in kind charge. For example, a diesel car that would give rise to a tax charge based on 25% of its list price by reference of its CO2 emissions, will actually give rise to a tax charge based on 28% of its list price. Because this is a flat increase of 3%, it has a disproportionate effect on the more CO2 efficient diesels; for example it has a 20% effect on the 15% rate but only a 10% effect on the 30% rate. The 3% flat rate increase will not increase the maximum tax rate beyond 35%.

Following evaluation of the new technologies for "clean" diesel, the government will waive the diesel supplement for these very low emission diesel cars. Further details about the criteria for exemption will be issued in due course. Consideration will also be given to the case for granting a discount, expressed as a percentage of the car's price to these cars.

Example

Jack has a diesel engine company car. He drives 20,000 business miles in each tax year. His car emits 206 grams of CO₂ per kilometre driven, and has a list price of £26,400. He is a 40% tax payer.

	<u>2001/2002</u>	<u>2002/2003</u>
Car List Price	£ £26,400	£ 26,400
Percentage charge for business mileage over 18,000 per annum	15%	
Percentage Charge of 202 g/km		26%
Benefit in Kind	3,960	6,864
Tax Payable at 40%	£1,584	£2,746

Alternative Fuels and Technologies

Cars that are propelled by alternative fuels (including LPG) and vehicle technologies that have the potential to offer significant environmental benefits but tend to be more expensive than conventional vehicles. Therefore, following consultation, discounts expressed as a percentage of the car's price will be introduced to mitigate the impact of their higher price.

Exceptions

The new CO2 emissions system will not apply to vehicles with no CO2 emissions rating (for example they may have been imported from outside the EC) or older vehicles, which the CO2 emission rating is not know. The taxable benefit in such cases will be based on engine size as follows.

<u>Engine Size (cc)</u>	<u>No Emissions Figure</u>	<u>Older Vehicle</u>
0 – 1400	15%	15%
1401 – 2000	25%	22%
2001 +	35%	32%

Vehicle Excise Duty (Road Fund License)

Further reforms to the Vehicle Excise Duty (VED) have been announced with a reduction in VED rate for smaller and cleaner vehicles.

The changes for all existing private and light goods from 1st March 2001 are:

- The VED rate will be increased by £5 to £160.
- The VED rate for smaller cars will rise by £5 to £105.
- The reduced VED rate for smaller cars will be extended from 1100cc to 1200cc. Owners of qualifying smaller cars who take out licenses at the standard rate up to 28 February 2001 will automatically receive a rebate of up to £55 in March 2001.

The changes for all new cars registered for the first time from March 2001 are:

- A four band system will be introduced based on emissions of carbon dioxide (CO2).
- Within each band there will also be a discount rate for cars using cleaner fuels and technology and a higher rate for diesel cars.

<u>VED Band</u>	<u>Co2 emission level (g/km)</u>	<u>Clean Fuel £</u>	<u>Petrol £</u>	<u>Diesel £</u>
A	Up to 150	90	100	110
B	151 – 165	110	120	130
C	166 – 185	130	140	150
D	186 +	150	155	160

Car Fuel Scale Charge Increases

The car fuel scale charges upon which individuals are taxed if provided with free fuel have increased for 2000/2001 by approximately 41% to discourage employees from accepting free fuel. These scale charges are as follows:

	1999/2000		2000/2001	
	Petrol (£)	Diesel (£)	Petrol (£)	Diesel (£)
<u>Engine Size cc</u>				
0 – 1400	1,210	1,540	1,700	2,170
1401 – 2000	1,540	1,540	2,170	2,170
2001 +	2,270	2,270	3,200	3,200

The scale charges will be further increased by 20% over and above the increases in pump prices in each year to 2002/2003. Note that this is a significant increase this year, which is due to the rise in the price of fuel. Drivers who take free fuel should now consider their positions very carefully.