Written evidence submitted by the Association of Taxation Technicians (ATT) (FB05)

Finance Bill 2024-25

Clauses 5 and 6: Income tax provisions relating to cars

Executive Summary

Clauses 5 and 6 determine the benefit in kind chargeable to Income Tax and National Insurance Contributions where an employee is provided with a company car.

They remove the current beneficial treatment of hybrid cars, under which the further a car can travel on electric charge alone, the lower the benefit in kind. As a result, drivers of the most efficient hybrids could see their income tax and National Insurance Contribution bills increase dramatically from April 2028.

Reducing the incentive for businesses and employees to adopt efficient hybrid vehicles appears contrary to the Government's wider green strategy.

1. **Background**

1.1. When an employer provides their employee with a vehicle which they are allowed to use privately (such as a company car) this creates a benefit in kind. Income tax is payable on this benefit in kind by the employee, and the employer will have Class 1A National Insurance Contributions (NICs) to pay. The benefit in kind is calculated by multiplying the list price of the car by the 'appropriate percentage'.

1.2. The appropriate percentages for any tax year are set out in Chapter 6 of Part 3 of the Income Tax (Earnings and Pensions) Act 2003 and vary based on the car's CO2 emissions. Very broadly, the higher the emissions, the higher the appropriate percentage and therefore the tax and NICs payable.

1.3. Clauses 5 and 6 set the 'appropriate percentages' for cars for tax years 2028/29, 2029/30 and beyond.

2. **Changes to the treatment of hybrid cars introduced by Clauses 5 and 6**

2.1. For tax years up to and including 2027/28, the appropriate percentage for hybrid cars with CO2 emissions of 1 – 50g/km is based on their electric range. Broadly, the further the car goes on a single charge alone, the lower the appropriate percentage and therefore the lower the resulting tax charge.

2.2. Clauses 5 and 6 change the treatment of hybrid cars from April 2028 onwards. They set the appropriate percentage from 2028/29 for all cars with emissions of 1 – 50 g/km at 18%, rising to 19% in 2029/30. As a result, the electric range of hybrid vehicles will no longer be taken into account when calculating the appropriate percentage.

2.3. For the most efficient hybrid cars, this could result in an overnight increase in the appropriate percentage in April 2028 from 5% to 18%. As an illustration, this could result in an employee with a hybrid company car with a list price of £40,000 seeing their income tax bill increase by over £1,000 a year if they are a basic rate taxpayer, or £2,000 a year if they are a higher rate taxpayer. Their employer will also see their Class 1A NICs increase by £780 a year.[1]

2.4. These potentially significant increases are not immediately evident from reading Clauses 5 and 6, which do not specifically refer to hybrids. They may therefore catch some employers and employees by surprise.

2.5. Such a dramatic increase in the tax charges on hybrid vehicles also appears to be contrary to the Government's wider green agenda. Although pure electric cars continue to have lower appropriate percentages, they may not always be practical, especially where employees do not have access to off-road charging spaces or are required to cover substantial distances as part of their work.

2.6. We therefore think that consideration should be given to maintaining the current differential treatment of hybrid company cars, with an appropriate percentage which takes into account their electric range. This could incentivise the take-up of greener hybrid vehicles by individuals and businesses.

Association of Taxation Technicians
7 January 2025

Note:

The Association of Taxation Technicians

The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government and academia.

The Association has over 10,000 members and Fellows together with over 7,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.

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[1] This assumes the car previously qualified for the lowest appropriate percentage for hybrids of 5%, giving rise to a benefit in kind of £2,000 a year, resulting in a tax charge of £400 for a basic rate taxpayer, £800 for a higher rate taxpayer. When the appropriate percentage increases to 18%, the benefit in kind increases to £7,200, giving a tax charge of £1,440 for a basic rate taxpayer, and £2,880 for a higher rate taxpayer. For employers, the 15% rate of Class 1A NICs scheduled to come into effect from April 2025 is assumed to apply in both years.