



## Income tax: van benefit charge for zero emission vans

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### Who is likely to be affected?

Businesses and employers that provide company vans which cannot in any circumstances emit CO<sub>2</sub> by being driven (zero emission vans) and employees provided with such company vans which are made available for significant private use.

### General description of the measure

The measure will increase the van benefit charge for zero emission vans from £nil, beginning in 2015-16. The van benefit charge for such vans will be 20 per cent of the van benefit charge for vans which emit CO<sub>2</sub> in 2015-16, 40 per cent in 2016-17, 60 per cent in 2017-18, 80 per cent in 2018-19 and 90 per cent in 2019-20. From 2020-21, the van benefit charge for zero emission vans will be the same as the van benefit charge for vans which emit CO<sub>2</sub>.

### Policy objective

By tapering the increase in the van benefit charge, there will still be an incentive to use zero emission vans so their production will continue to be encouraged. At the same time, increasing the taxable benefit ensures the tax system continues to support the sustainability of the public finances.

### Background to the measure

This measure was announced at Budget 2014.

## Detailed proposal

### Operative date

This measure will have effect on and after 6 April 2015.

### Current law

Sections 154 to 159 of the Income Tax (Pensions and Earnings) Act 2003 (ITEPA) provide for a van benefit charge for vans which emit CO<sub>2</sub>. When a van which is made available to an employee for reasons of the employee's employment and is also made available for private use, then the benefit of the van is treated as earnings from the employment. The benefit is subject to tax on the employee and Class 1A National Insurance contributions on the employer. If the employee is liable for the charge, it is applied as a single figure. The charge is not dependent on the value of the van or the proportion of private use within the period it has been made available unless it meets the conditions of restricted private use.

At present, sections 155(1)(a) and (2)(b) provide that vans which are incapable of producing CO<sub>2</sub> emissions under any circumstances (zero emission vans) have a van benefit charge of £nil.

### Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend section 155 ITEPA 2003 to increase the van benefit charge for zero emission vans as a percentage of the existing

charge for vans which emit CO<sub>2</sub>. The charge will gradually increase each year from 2015-16 to 2019-20.

The legislation will also amend the references to section 155 in other parts of the legislation in order to ensure that the calculation of the cash equivalent of a van includes the new provisions.

## Summary of impacts

<b>Exchequer impact (£m)</b>	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.					
<b>Economic impact</b>	The measure is not expected to have any economic impacts.					
<b>Impact on individuals, households and families</b>	<p>This measure will result in employees driving zero emission company vans which are also made available for significant private use beginning to pay income tax but at a lower rate than drivers of vans emitting CO<sub>2</sub>. This tax differential will be eliminated on a gradual basis in the run-up to 2020-21.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
<b>Equalities impacts</b>	The changes apply equally to all affected. There are no particular impacts on people with protected characteristics.					
<b>Impact on business including civil society organisations</b>	The measure is expected to have no impact on businesses or civil society organisations.					
<b>Operational impact (£m) (HMRC or other)</b>	Routine IT and guidance changes will be required for HM Revenue & Customs.					
<b>Other impacts</b>	Other impacts have been considered and none has been identified.					

## Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups.

## Further advice

If you have any questions about this change, please contact Alastair Dougans on 03000 584745 (email: [employmentincome.policy@hmrc.gov.uk](mailto:employmentincome.policy@hmrc.gov.uk)).

## 1 Zero-emission vans

- (1) ITEPA 2003 is amended as follows.
- (2) In section 155 (cash equivalent of the benefit of a van), for subsections (1) and (2) substitute –
  - “(1) The cash equivalent of the benefit of a van for a tax year is calculated as follows.
    - (1A) If the restricted private use condition is met in relation to the van for the tax year, the cash equivalent is nil.
    - (1B) If that condition is not met in relation to the van for the tax year –
      - (a) if the van cannot in any circumstances emit CO<sub>2</sub> by being driven and the tax year is any of the tax years 2015-16 to 2019-20, the cash equivalent is the appropriate percentage of £3,150 and
      - (b) in any other case, the cash equivalent is £3,150.
    - (1C) The appropriate percentage for the purposes of subsection (1B)(a) is –
      - (a) 20% for the tax year 2015-16,
      - (b) 40% for the tax year 2016-17,
      - (c) 60% for the tax year 2017-18,
      - (d) 80% for the tax year 2018-19, and
      - (e) 90% for the tax year 2019-20.”
- (3) In section 156(1) (reduction for periods when van unavailable), for “155(1)” substitute “155”.
- (4) In section 158(1) (reduction for payments for private use), for “155(1)” substitute “155”.
- (5) In section 160(1)(c) (benefit of fuel treated as earnings), for “section 155(1)(b)” substitute “section 155(1B)(b)”.
- (6) In section 170 (orders etc relating to Chapter 6 of Part 3), for subsection (1A) substitute –
  - “(1A) The Treasury may by order substitute a different amount for the amount for the time being specified in –
    - (a) section 155(1A) (cash equivalent where van subject only to restricted private use by employee),
    - (b) section 155(1B)(a) (cash equivalent for zero-emission van), and
    - (c) section 155(1B)(b) (cash equivalent in other cases).”
- (7) Article 3 of the Van Benefit and Car and Van Fuel Benefit Order 2014 (S.I. 2014/2896) is revoked.
- (8) The amendments and revocation made by this section have effect for the tax year 2015-16 and subsequent tax years.

## EXPLANATORY NOTE

### ZERO-EMISSION VANS

#### SUMMARY

1. With effect from 6 April 2015, this measure increases the van benefit charge (currently £nil) on a tapered basis for company vans which cannot in any circumstances emit CO<sub>2</sub> by being driven (zero-emission vans). This means that employees using zero-emission vans for more than insignificant private use will now be liable for the charge, although the full charge will not come into effect until 2020-21.

#### DETAILS OF THE CLAUSE

2. Subsection (1) introduces changes to Income Tax (Earnings and Pensions) Act 2003 (ITEPA).
3. Subsection (2) replaces sections 155(1) and 155(2) ITEPA and amends the method of calculating the cash equivalent of the benefit of a van. The charge is increased from £nil for zero-emission vans to a percentage of the charge applying to vans which emit CO<sub>2</sub>. This percentage increases each tax year from 40% in 2016-17 to 100% in 2020-21. For vans which emit CO<sub>2</sub>, the existing van benefit charge continues to apply. The cash equivalent of the van benefit charge remains £nil where the restricted private use condition is met.
4. Subsection (3) replaces section 155(1) with new section 155 in section 156(1). When calculating the reduction for periods when the van was unavailable, the calculation of the cash equivalent of the benefit of a van now includes reference to the charge for zero-emission vans.
5. Subsection (4) replaces section 155(1) with new section 155 in section 158(1). When calculating the reduction for payments for private use, the calculation of the cash equivalent of the benefit of a van now includes reference to the charge for zero-emissions vans.
6. Subsection (5) replaces section 155(1)(b) with section 155(1B)(b) in section 160(1)(c). When calculating the benefit of van fuel treated as earnings, the new reference to calculating the cash equivalent of a van in other cases is used.
7. Subsection (6) replaces 170(1A). Following the introduction of subsection (2) of the new clause, the references to the subsections on calculating the cash equivalent of a van are amended.
8. Subsection (7) revokes Article 3 of the Van Benefit and Car and Van Benefit Order 2014. Article 3, which sets the level of the full van benefit charge, is no longer necessary as a result of subsection (2) of this clause.

9. Subsection (8) provides that these changes and the revocation have effect for the tax year 2015-16 and subsequent tax years.

**BACKGROUND NOTE**

10. The measure will phase out the existing £nil van benefit charge for zero-emission vans between April 2015 and April 2020. From tax year 2015-16, a rate of 20% of the van benefit charge for vans which emit CO<sub>2</sub> will apply to zero-emission vans. This rate will increase each year as follows until it is equivalent to 100% of the van benefit charge for vans which emit CO<sub>2</sub>:

- 40% in 2016-17;
- 60% in 2017-18;
- 80% in 2018-19;
- 90 % in 2019-20; and
- 100 % in 2020-21.

11. The 2009 Pre-Budget Report announced that the van benefit charge for zero-emission vans would be £nil from 6 April 2010 to 5 April 2015, to support the uptake of cleaner goods vehicles. By tapering the increase in the van benefit charge, there will still be an incentive to use zero-emission vans so their production will continue to be encouraged. At the same time, increasing the taxable benefit ensures the tax system continues to support the sustainability of the public finances.

12. If you have any questions about this change, or comments on the legislation, please contact Alastair Dougans on 03000 584745 (email: [employmentincome.policy@hmrc.gsi.gov.uk](mailto:employmentincome.policy@hmrc.gsi.gov.uk)).