

13 May 2008

Benefits in Kind

Taxation of Company Cars and Fuel

Proposal Document

Issued by:

Income Tax Division
2nd Floor Government Office
Buck's Road
Douglas
IM1 3TX

Table of Contents

1. INTRODUCTION	3
2. BACKGROUND	3
2.1 Car benefit	4
2.2 Car fuel benefit	5
3. CURRENT ISSUES	5
4. STATISTICAL DATA	5
5. OTHER JURISDICTIONS	6
6. DEPARTMENT OF TRANSPORT – ANNUAL VEHICLE DUTY	6
7. PROPOSED INCOME TAX CHANGES	6
8. LEGISLATION	8
9. FURTHER INFORMATION	8
Appendix 1 – Car and Fuel Benefits 2007/2008	9
Appendix 2 – Department of Transport Annual Vehicle Duty Rates	10
Appendix 3 – Examples	11

BENEFITS IN KIND

TAXATION OF COMPANY CARS AND FUEL

PROPOSAL DOCUMENT

1. INTRODUCTION

The Treasury Minister announced in his 2007 Budget that he was asking the Assessor of Income Tax to review the taxation of company cars and fuel provided to employees by their employers.

As a result of that review the Minister made a further announcement in his Budget speech on 19 February 2008 that a proposal for a thoroughly updated system would be published based more on environmental impact and aligned with the new simplified annual vehicle duty bands used by the Department of Transport.

In order to allow businesses to prepare for this change the proposed new system is expected to become operational from 6 April 2009.

2. BACKGROUND

A benefit in kind is 'consideration' that may be provided by an employer to a director or an employee in lieu of cash.

Cars and fuel provided by employers for the private use of their employees are taxed as benefits in kind, with the monetary amount calculated by reference to Sections 2I and 2J of the Income Tax Act 1970.

Car benefit rates have not been increased since 1994, and car fuel benefits were last increased in 2005.

Electric cars are currently exempt from these charges.

Commercial vehicles such as vans and lorries are also exempt from the charges provided that the main purpose of the vehicle is for:

- the transportation of goods or materials used within the trade;
- the transportation of goods in the course of conducting a delivery service; or
- the transportation of tools or equipment used by the employee in performing their duties.

The following details are required by employers to calculate the car and fuel benefit charges by reference to statutory tables:

- make and model of the car;
- date on which the car was first registered as new;
- original market value (OMV) of the car;
- car cylinder capacity (cc);
- number of business miles; and
- period of use of the car.

The current table of charges is shown in Appendix 1.

2.1 Car benefit

a) Basic charge

Where a car has an OMV of less than £19,250 then Table A is applied and the cc of the car determines the charge. Table B is applied where there is no cylinder capacity. Where a car has an OMV of more than £19,250 then Table C is applied and the charge is calculated by reference to the value of the car. All cars with an OMV in excess of £29,000 attract the same charge.

A reduced charge is applied if the car is more than four years old.

b) The basic charge is increased:

- by 50% if the employee uses the car for less than 2,500 business miles per year;
- by 50% if the car is a second car made available concurrently to the same employee or their family member. The main car is the one with the highest number of business miles and will not be subject to an increased charge.

c) The basic charge is decreased:

- by 50% if the employee uses the car for more than 18,000 business miles per year;
- in respect of periods of unavailability of the car (30 consecutive days off the road);
- when the employee pays a contribution to the employer for the use of the car.

2.2 Car fuel benefit

The scale charge for fuel is an all or nothing charge. This means that unless the entire cost of private fuel is paid for by the employee the full scale charge will apply. There will be no reduction to the scale charge should an employee make only a partial contribution towards the cost of private fuel.

The fuel scale charges are based on the OMV and cc of the car.

Where an employer pays a reasonable mileage allowance that reimburses the employee for business travel only using their own vehicle there is no requirement to report these payments or to apply for a dispensation as long as the pence per mile rate paid does not exceed the rates published by Income Tax Division.

3. CURRENT ISSUES

There are a number of issues relating to the current system:

- it is cumbersome and time-consuming for employers to operate;
- business mileage is regularly omitted, estimated or incorrect when details are submitted and this leads to further enquiries being made with the employer;
- all vehicles with an OMV over £29,000 result in the same scale charge (a £90,000 car would be deemed to have the same benefit as one costing £30,000);
- higher business mileage reduces the charge - from an environmental viewpoint this may encourage additional car use; and
- the statutory tables do not reflect the current cost of cars and fuel.

4. STATISTICAL DATA

302 employers submitted details of car and/or fuel benefits for the 2005/2006 tax year which led to assessable benefits as follows:

Type of benefit	Approximate number of cars	Value of benefits to be charged to income tax
Car	1100	£2,526,170
Fuel	155	£579,906

5. OTHER JURISDICTIONS

The Income Tax Division has, as part of the recent review, examined the possibility of mirroring the systems being operated in other jurisdictions. However, it became apparent that doing so would place even more of an administrative burden on local employers.

For example, in the United Kingdom car benefit is calculated in a series of numbered steps. This requires the employer to consider a number of factors such as price, accessories, CO₂ emissions, availability, fuel type and employee contributions often with associated complex rules. The fuel benefit charge is calculated by multiplying a set figure for each year by the percentage for CO₂ emissions for each particular vehicle as is used when calculating the car benefit charge.

6. DEPARTMENT OF TRANSPORT – ANNUAL VEHICLE DUTY

New vehicle duty rates were introduced from 1 October 2007 by the Department of Transport which reduced the annual vehicle duty for cars below 1,000 cc from £60 to £50. The duty for cars with engines between 1,000 cc and 1,200 cc remained at £60, for cars with engines between 1,200 cc and 5,000 cc the annual duty increases incrementally and a new band of £300 was introduced for cars with engines above 5,000 cc.

The Department of Transport considered this to be a 'Greener Vehicle Duty' with the intention of encouraging the use of smaller cars with better fuel economy and lower emissions.

The current annual vehicle duty bands are shown in Appendix 2.

7. PROPOSED INCOME TAX CHANGES

The proposed new system to be operated from 6 April 2009 will:

- have the same aim as the vehicle duty changes - to encourage the use of smaller vehicles with better fuel economy and lower CO₂ emissions and therefore reduce the impact on the environment; and
- be simple, easy to comply with and straightforward for employers to administer.

Benefits in Kind – Taxation of Company Cars and Fuel – A Proposal Document

The proposed table of charges for the 2009/2010 tax year is shown below:

Cylinder capacity (cc)	Car Rate	Fuel Rate
Electric cars (regardless of cylinder capacity)	Nil	Nil
1000 or less	£800	£800
1001 - 1200	£1,100	£950
1201 - 1800	£3,600	£1,500
1801 - 2500	£5,000	£1,750
2501 - 3500	£7,000	£2,000
3501 - 5000	£10,000	£2,250
More than 5000	£12,000	£2,500

Examples of the effect of the changes are shown in Appendix 3.

It is also proposed that:

- commercial vehicles and electric cars will continue to be exempt from any charges;
- there will be no reduction in the charges for the age of a vehicle – as this may encourage the retention of older vehicles with higher CO₂ emissions;
- the current increases or decreases in the charges based on the annual business mileage will be abolished – if the vehicle is available for the personal use of the employee the normal charges will be applied;
- where a second car is made available concurrently to the same employee or their family member a 100% increase (currently 50%) will be applied to the charges for that car;
- the current decreases in the charges for periods of unavailability of the car (30 consecutive days off the road) and where the employee pays a contribution to the employer for the use of the car will continue; and
- the current approach that there is no requirement to report the payments or to apply for a dispensation where an employer pays a reasonable mileage allowance that reimburses an employee for business travel only using their own vehicle - so long as the pence per mile rate paid does not exceed the rates published by Income Tax Division - will continue.

The proposed new system will reduce the administrative burden on employers, removing the need to take into account details of the OMV, age of the vehicle and business miles when calculating charges for completing forms to submit to the Income Tax Division.

The structure of Department of Transport annual vehicle duty charges will continue to be monitored by the Income Tax Division and should any changes take place to take into account CO₂ emissions or vehicles using particular fuel types they will be reflected in changes to the benefit in kind charges.

8. LEGISLATION

Appropriate amendments to current legislation will be included in the next income tax bill, and will take into account responses to the proposals in this document.

9. FURTHER INFORMATION

Benefit in Kind Guide (GN 40) – this covers all aspects of the current system and is available at: <http://www.gov.im/incometax>.

If you have any questions or would like any further information, please contact:

Gerard Higgins
Policy and Business Support Manager
Treasury, Income Tax Division
Buck's Road
Douglas
Isle of Man
IM1 3TX

Tel: (01624) 685324
Fax: (01624) 685351
Email: Gerard.Higgins@itd.treasury.gov.im

Benefits in Kind – Taxation of Company Cars and Fuel – A Proposal Document

Appendix 1 – Car and Fuel Benefits 2007/2008**Table A**

Cars with an original market value **up to** £19,250 and having a cylinder capacity (or which are electric cars)

CYLINDER CAPACITY (CC)	CAR RATE		FUEL RATE
	AGE OF CAR AT 05.04.2008		
	UNDER 4 YEARS	4 YEARS OR MORE	
Electric cars (regardless of cylinder capacity)	NIL	NIL	NIL
1400 or less	£1,070	£710	£990
1401 - 2000	£1,980	£1,320	£1,255
More than 2000	£3,140	£2,100	£1,850

Table B

Cars with an original market value **up to** £19,250 and not having a cylinder capacity (or which are electric cars)

ORIGINAL MARKET VALUE	CAR RATE		FUEL RATE
	AGE OF CAR AT 05.04.2008		
	UNDER 4 YEARS	4 YEARS OR MORE	
Electric cars (regardless of cylinder capacity)	NIL	NIL	NIL
Less than £6,000	£1,070	£710	£1,850
£6,000 - £8,499	£1,980	£1,320	£1,850
£8,500 - £19,250	£3,140	£2,100	£1,850

Table C

Cars with an original market value **more than** £19,250 (including electric cars)

ORIGINAL MARKET VALUE	CAR RATE		FUEL RATE
	AGE OF CAR AT 05.04.2008		
	UNDER 4 YEARS	4 YEARS OR MORE	
Electric cars (regardless of cylinder capacity)	NIL	NIL	If car has a cylinder capacity use appropriate fuel rate at Table A above, for all other cars use fuel rate at Table B.
£19,251 - £29,000	£4,120	£2,760	
More than £29,000	£6,560	£4,360	

Benefits in Kind – Taxation of Company Cars and Fuel – A Proposal Document

Appendix 2 – Department of Transport Annual Vehicle Duty Rates**Vehicle Duty Rates Non Commercial Goods Vehicles****Vehicle Duty Order 2007****Effective date: 1st October 2007**

<u>B Category</u>		
Standard motor vehicle not exceeding 3,500Kg maximum laden weight. Motor vehicle not exceeding 3,500kg maximum laden weight, being a motor caravan, or a vehicle which corresponds to a motor caravan.		
Of which the cylinder capacity of the engine		
Exceeds	But not exceeding	Annual duty £
****	1000 _{CM3}	50.00
1000 _{CM3}	1200 _{CM3}	60.00
1200 _{CM3}	1800 _{CM3}	107.00
1800 _{CM3}	2500 _{CM3}	150.00
2500 _{CM3}	3500 _{CM3}	236.00
3500 _{CM3}	5000 _{CM3}	280.00
5000 _{CM3}	****	300.00

<u>A1, A & B1 Category</u>		
Motor cycles, and other motor vehicles with 2, 3 or 4 wheels not exceeding 550Kg unladen weight. Motor vehicle not exceeding 550Kg unladen weight (whether or not fitted with a side car and a trailer)		
Exceeds	But not exceeding	Annual duty £
****	50 _{CM3}	5.00
50 _{CM3}	125 _{CM3}	26.00
125 _{CM3}	400 _{CM3}	34.00
400 _{CM3}	****	53.00

Private Veteran vehicle at least 25 years old	5.00
--	------

<u>C1 & C Categories</u>		
Vehicles exceeding 3,500Kg maximum laden weight which are constructed for the carriage of goods or burden but not used commercially to carry or haul goods		
a. A goods vehicle, or		
b. A motor caravan, a vehicle which corresponds to a motor caravan or another vehicle, in any such case constructed or adapted to carry not more than 8 passengers excluding the driver:		
If the cylinder capacity of the engine-		
Exceeds	But not exceeding	Annual duty £
****	2500 _{CM3}	150.00
2500 _{CM3}	3500 _{CM3}	236.00
3500 _{CM3}	5000 _{CM3}	280.00
5000 _{CM3}	****	300.00

<u>L Category</u>		
Electric Vehicles		
a. Commercially used goods vehicles of which the unladen weight:		
Exceeds	But not exceeding	Annual duty £
****	550Kg	53.00
550Kg	1000Kg	99.00
	Plus £29.00 for each 500Kg by which the unladen weight of the vehicle exceeds 1000Kg	
b. If not a goods vehicle or not commercially use to carry or haul goods		5.00

Appendix 3 – Examples

The following table shows various examples of the difference in monetary value when calculating charges using the current and proposed systems.

For the purpose of these examples the car charge for 2007/2008 is based on a car less than 4 years old.

Cubic Capacity (cc)	Car Charge 07/08	Fuel Charge 07/08	Total	Car Charge 09/10	Fuel Charge 09/10	Total	Difference
1000	£1,070	£990	£2,060	£800	£800	£1,600	-£460
1200	£1,070	£990	£2,060	£1,100	£950	£2,050	-£10
1500	£1,980	£1,255	£3,235	£3,600	£1,500	£5,100	+£1,865
1750	£1,980	£1,255	£3,235	£3,600	£1,500	£5,100	+£1,865
2000	£1,980	£1,255	£3,235	£5,000	£1,750	£6,750	+£3,515
2750	£3,140	£1,850	£4,990	£7,000	£2,000	£9,000	+£4,010
4000	£3,140	£1,850	£4,990	£10,000	£2,250	£12,250	+£7,260
5100	£3,140	£1,850	£4,990	£12,000	£2,500	£14,500	+£9,510