

Modernising tax relief for business expenditure on cars: a technical note

December 2008



HM TREASURY



HM Revenue
& Customs

Modernising tax relief for business expenditure on cars: a technical note

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Subject of this consultation:	At Budget 2008 the Government announced its intention to modernise tax relief for business expenditure on cars with effect from April 2009. This technical note contains the draft legislation for this reform. See Chapter 4 for draft legislation.
Scope of this consultation:	The main purpose of this consultation is to seek views from business on the draft legislation. In order to ensure that the eventual legislation is clear, concise and works as intended, the Government welcomes views on the draft clauses.
Impact Assessment:	The Consultation Stage Impact Assessment for this reform can be found in Annex A
Who should read this:	All businesses that buy or lease cars.
Duration:	Comments should be received by 27 February 2009 .
Enquiries:	For technical queries please telephone and leave a message on 020 7147 2610. A member of the HMRC CT & VAT team will contact you.
How to respond:	Corporate Taxation Team HM Treasury 1 Horse Guards Road London SW1A 2HQ Email: Business.cars@hm-treasury.gsi.gov.uk Telephone (Treasury switchboard): 0207 270 5000
Additional ways to become involved:	This document is available electronically at: www.hm-treasury.gov.uk/consultations
After the consultation:	Noting business responses to the draft legislation the Government will publish final legislation in Finance Bill 2009, along with a revised Impact Assessment.
Getting to this stage:	Following the last round of consultation, which closed in May 2007, the Government committed to publishing draft legislation for technical comment.
Previous engagement:	This reform follows a consultation in 2006 and an update in 2007.

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1

Introduction

1.1 Currently, businesses face restrictions on the extent to which they can claim tax relief for their capital expenditure on cars costing more than £12,000. There are also related restrictions on the amount of car rental payments that businesses can offset against their profits when they lease cars costing more than £12,000.

1.2 These rules are often referred to as the “expensive car” rules. They were originally introduced in 1961 as a surrogate benefits charge on luxury cars, and have, for many years, been identified by business as an area that would benefit from reform.

1.3 In the 2004 corporation tax (CT) reform technical note businesses were invited to comment on these rules and, without exception, all those who commented agreed that the rules were ripe for reform. There was a consensus that any reform that would reduce the compliance burden and simplify the rules would be welcomed.

1.4 In the light of the responses, the Government undertook further work on the possible options for reform. At Budget 2006 it launched a formal consultation on modernising the tax relief for business expenditure on cars¹, explaining that its objectives were to reduce compliance burdens with a reform that was consistent with its wider environmental objectives and with sound public finance. At the commencement of the consultation process, the capital allowances option that was seen as meeting these three objectives was a system comprising a range of first-year allowances based on a car’s CO₂ emissions, with the balance of unrelieved expenditure being taken to a new pool, with a rate of writing-down allowances lower than the main plant & machinery pool. At the time, this option was described as the Government’s preferred option.

1.5 As a result of listening carefully to the detailed responses to the 2006 consultation, the Government decided to refine its preferred option and, at Budget 2007, it published a consultation update² to obtain business’s views on the revised proposal. This was that the existing 100 per cent first-year capital allowances for expenditure on cars with the lowest CO₂ emissions should be retained, but that other expenditure should be allocated either to the main plant and machinery pool, or to a lower rate pool, depending on the car’s CO₂ emissions³.

1.6 Overall, most respondents who commented on the merits of the refined proposal felt that it offered an improvement on the option aired in the previous consultation document and that it was simpler. A summary of the responses received to both the 2006 consultation and the 2007 consultation update was prepared and published in October 2007⁴.

¹ www.hm-treasury.gov.uk/budget06/other-documents/bud_bud06_odcars.cfm

² Modernising tax relief for business expenditure on cars: a consultation update. www.hm-treasury.gov.uk/budget/budget07/documents/bud_bud07_cars.cfm

³ The emissions threshold for the allocation of expenditure on cars to the main capital allowances pool was originally suggested at 165g/km or less, in the 2007 consultation update. However, at Budget 2008, this was revised to 160g/km, to coincide with one of the vehicle excise duty (VED) boundaries which are to apply from April 2009, in order to avoid adding complexity.

⁴ Consultation on modernising tax relief for business expenditure on cars: summary of responses. www.hm-treasury.gov.uk/pbr_csr/documents/pbr_csr07_cars.cfm

1.7 In the light of the responses received, the Government announced its reform proposals at Budget 2008. It announced that the existing capital allowances rules for cars costing over £12,000 would be replaced by an emissions-based approach. The related restrictions on lease rental payments would also be replaced by a flat rate disallowance, but only for cars with CO₂ emissions above 160g/km. The further details announced were as follows:

- The existing 100 per cent first-year allowances for cars with very low CO₂ emissions would be extended for a further 5 years (from 1 April 2008 until 31 March 2013) with a lowered CO₂ emissions threshold of 110 grams per kilometre (g/km). This extension was effected in Finance Act 2008.
- From April 2009, other capital expenditure on cars will be allocated to one of the two main plant and machinery pools -
 - Expenditure on cars with CO₂ emissions of 160g/km or below will be allocated to the main pool, attracting writing-down allowances of 20 per cent a year, and
 - Expenditure on cars with CO₂ emissions above 160g/km will be allocated to the 'special rate' pool, attracting writing-down allowances of 10 per cent a year.

1.8 Chapter 3 sets out the key features of the new rules and requests comments on certain points of detail.

1.9 Chapter 4 contains the draft legislation, accompanied by Explanatory Notes setting out the purpose of each clause. This legislation will be included in Finance Bill 2009 and the new rules will come into effect from April 2009, subject to Parliamentary approval and Royal Assent. In order to ensure that the eventual legislation is clear, concise and works as intended, the Government welcomes views on the draft clauses.

1.10 An updated consultation stage impact assessment is appended to this document and again the Government seeks comments from businesses and other stakeholders on whether its assumptions about the level of administrative burden are correct.

Summary

1.11 This document:

- explains the background to the proposed reforms and the policy rationale ([Chapter 2](#))
- explains the final proposals in further detail ([Chapter 3](#))
- contains the draft legislation accompanied by Explanatory Notes setting out the purpose of each clause ([Chapter 4](#))
- contains a consultation stage impact assessment ([Annex A](#))

2 Background to the reform proposals

2.1 This chapter outlines the current rules and sets out the Government's proposed changes to the rules for tax relief on business expenditure on cars.

Capital allowances

2.2 As mentioned in Chapter 1, there are currently special capital allowances rules for cars that cost over £12,000. For these cars, as long as the car is not a "qualifying hire car" (mainly day hire cars, cars used as taxis or cars leased to the disabled), or a qualifying car with very low CO₂ emissions (below 110g/km), the expenditure is put into a single asset pool for each individual car. The writing-down allowances are calculated in the normal way and then restricted to an annual amount not exceeding £3,000 per car. When the car is disposed of a balancing charge or allowance may be generated to bring the total allowances given in line with the actual depreciation suffered.

2.3 Cars that cost less than £12,000 and qualifying hire cars are treated in the same way as most other plant and machinery (P&M) and accounted for in the main P&M pool with a writing-down allowance of 20 per cent a year on a "reducing balance basis". Cars with very low CO₂ emissions qualify for 100 per cent first year allowances, regardless of cost.

Private Use

2.4 Some business cars have an element of private use. For the self-employed who own and use a car for mixed business and private purposes, the expenditure is put into a single asset pool and capital allowances are restricted pro rata to give relief only in respect of business use.

Rental restrictions

2.5 There are also related restrictions on the amount of car leasing payments that businesses can offset against profits for cars costing more than £12,000.

Problems with the current rules

Compliance costs

2.6 Business has made it clear, both in discussions and in responding to the consultations, that the current "expensive car" rules impose a disproportionate compliance burden. Unlike for most plant and machinery, businesses are required to put expenditure on each "expensive car" in a single asset pool, maintaining separate capital allowance computations for each car and identifying when a car has been purchased or disposed of. As a result, the expensive car computations are often the single largest component of the tax computation. There are similar compliance cost issues for the lease rental restriction.

Outdated

2.7 Business has also often expressed the view that the rules are outdated. They were first introduced in 1961, as a surrogate benefits charge on luxury cars. That benefit element is now taxed by the company car tax regime. Furthermore, the current limit of £12,000, above which cars are deemed to be expensive, means that in today's market more than half of the business car population is classed as "expensive".

Distortions

2.8 It has also been argued that the lease rental restriction creates a distortion in the business car market by permanently disallowing a proportion of a business's car hire costs. The effects of this are felt particularly where a car is leased through a chain of leases, as the restriction is applied to every lease in the chain.

Other issues

2.9 In addition, the consultations sought businesses' views on:

- **Cars that are currently exempt** from the "expensive car" rules, such as daily hire cars and cars leased to the disabled. Historically, such expenditure was exempt on the grounds that these cars were unlikely to be provided as a benefit-in-kind;
- **Private use** or the treatment of expenditure incurred by the self-employed on cars which are used partly for business and partly for non-business purposes. However, there was no consensus on this issue amongst the respondents to the consultations;
- **The treatment of diesel cars:** The majority of those who commented on this issue thought that no special treatment was required.

The aims of the reform

2.10 The case for change was set out in the consultation documents against the background of the Government's objectives for the reform. These aims centre on -

Reducing compliance costs – which currently include the cost of tracking cars at an individual, rather than aggregate level. The reform proposals aim to achieve this objective, both by the reduction in the proportion of cars in single asset pools, and by the application of the lease rental restriction to a smaller proportion of leases.

Consistency with environmental objectives – The planned reforms to the rules for tax relief for business expenditure on cars are part of a package of measures, introduced in the transport sector, to encourage businesses to choose cars which emit lower levels of carbon dioxide. The further move towards the use of "greener" cars that will be encouraged by this reform will assist the Government in meeting its objective of reducing carbon dioxide emissions.

Consistency with sound public finances - The proposed changes strike an appropriate balance between reducing administrative burdens and furthering the Government's environmental objectives, in a way that is consistent with sound public finances.

The Government's reform proposals

2.11 A brief history of the consultation process, leading to an announcement of the main features of the Government's reform proposals at Budget 2008, is outlined in Chapter 1.

2.12 In order to encourage the choice of cars with lower carbon dioxide emissions and also to reduce the administrative burden of businesses identifying and tracking expenditure and of computing capital allowances for assets in single asset pools, the reform will include the abolition of the "expensive cars" rules. In their place, the new regime will:

- maintain the existing 100 per cent first-year allowances for cars with very low CO₂ emissions (these allowances were extended for a further 5 years in Finance Act 2008) based on a lowered CO₂ emissions threshold of 110 g/km;
- from 1 April 2009 (for corporation tax) or 6 April 2009 (for income tax) business expenditure on cars will be allocated to one of the two main plant and machinery (P&M) pools. Where the expenditure relates to a car with CO₂ emissions;
 - of **160g/km or below**, it will be allocated to the main P&M pool - attracting writing-down allowances of **20 per cent** a year, or
 - of **more than 160g/km**, it will be allocated to the 'special rate' P&M pool, attracting writing-down allowances of **10 per cent** a year;
- for leases commencing on or after 1 April 2009 (for corporation tax) or 6 April 2009 (for income tax)) the reform proposals also include -
 - **abolition of any lease rental restriction** for cars with CO₂ emissions of **160g/km or less**, with the consequence that the cost of leasing such cars will be allowed in full as a deduction in computing taxable profits;
 - the application of a flat **15 per cent disallowance** of the rental payments that may be deducted in computing taxable profits in respect of rental payments for cars with CO₂ emissions **over 160g/km** and
 - where there is a chain of leases, this **disallowance** will apply only to rental payments made by one lessee in a chain of leases.

2.13 The Government considers that its proposed reforms should deliver environmental benefits by encouraging businesses to choose cars with lower CO₂ emissions. The reforms also represent a simplification of the existing rules.

Further detail

2.14 Further details of how the new rules for tax relief on business cars are expected to work are provided in the next chapter, and the draft legislation, together with Explanatory Notes on the legislation, is in chapter 4.

3

The proposals-further detail

3.1 This chapter sets out the key design elements of the new rules for tax relief for business expenditure on cars. The draft legislation¹ and Explanatory Notes can be found in Chapter 4.

3.2 The Government also seeks comments from stakeholders on some of the details of the proposals, where these have not been aired previously.

Tax relief for business expenditure on cars – general

3.3 Businesses that incur capital expenditure on a car can qualify for plant and machinery (P&M) capital allowances. These allowances are available to all businesses, whether within the charge to corporation tax or income tax: companies, partnerships and the self-employed.

Commencement

3.4 The new rules for business expenditure on cars will apply to expenditure incurred on or after 1 April 2009, for businesses within the charge to corporation tax, and on or after 6 April 2009, for businesses within the charge to income tax.

3.5 Pre-commencement expenditure incurred before 1 April 2009 (corporation tax) or before 6 April 2009 (income tax), by a person about to carry on a business, will be treated as if it had been incurred on the first day on which the business is carried on.

Proposed new rules

3.6 Building on the existing 100 per cent first-year allowances (FYAs) for expenditure on cars with the lowest CO₂ emissions (of 110 g/km or less), the rate of writing-down allowances (WDAs) for business expenditure on other cars will also be determined by the car's CO₂ emissions. So, in addition to the existing FYAs, the new rules will provide that expenditure on cars with CO₂ emissions -

- not exceeding 160g/km will be pooled in the main P&M pool, qualifying for writing-down allowances (WDAs) at 20 per cent a year and
- over 160g/km will be pooled in the special rate P&M pool, qualifying for writing-down allowances (WDAs) at 10 per cent a year.

Cars affected

3.7 There will be no difference in the treatment of petrol and diesel cars.

3.8 The new rules will apply to all cars including "qualifying hire cars" which are exempt from the current rules. Broadly, "qualifying hire cars" are cars used as taxis (such as mini-cabs), daily hire cars and cars leased to the disabled. Historically, these cars have been exempt because they

¹ The draft legislation includes references to amendments to CTA 2009. CTA will restate sections 578 A and 578 B of ICTA 1988 for insurance companies (in ICTA 1988). The restated sections will be the subject of amendments having the same effect as the amendments of sections 578 A and 578B of ICTA.

are unlikely to be provided as a luxury benefit-in-kind, but this policy rationale does not apply under the new regime designed to encourage investment in cars with low CO₂ emissions. At Budget 2008, the Government announced its intention that, subject to State aid approval, expenditure on cars leased to those in receipt of certain disability allowances would be placed in the 20 per cent main pool, regardless of their CO₂ performance. This remains the Government's intention. However, the Government has agreed with the main UK supplier of leased cars to disabled people that it would be in the best interests of their customers to defer an application for State Aid approval at the present time. Initiatives are being taken to increase the availability of cars with low emissions for lease by disabled people within a wide choice of affordable cars.

3.9 Expenditure incurred on a car, which is provided or used partly for non-business purposes, will continue to be allocated to a single asset pool. The rate of WDA of the single asset pool will be determined by the CO₂ emissions of the car, in terms of the new rules above, and the allowances will continue to be adjusted so that only the proportion of the allowances relating to business use is given for tax purposes.

3.10 The capital allowances definition of a car currently includes any mechanically propelled road vehicle, other than one –

“(a) of a construction primarily suited for the conveyance of goods of burden of any description, or

(b) of a type commonly not used as a private vehicle and unsuitable for such use

References to a car accordingly include a motor cycle”²

3.11 In terms of this definition, therefore, lorries, vans and vehicles such as black hackney cabs are excluded, but motor cycles are included.

Proposed exclusion of motor cycles

3.12 Commentators on the reform proposals have observed that motor cycles are not defined as “cars” for other tax purposes, such as the benefit-in-kind rules or VAT. The Government has listened to these representations and is now minded to exclude motor cycles from the capital allowances definition, so that they will not be subject to the new CO₂ emissions-based regime. On this basis, expenditure on motor cycles would qualify as standard plant and machinery (P&M) expenditure, and so would qualify for the new Annual Investment Allowance³, with any balance of expenditure falling to be allocated to the main P&M pool, attracting WDAs at 20 per cent a year. The Government believes that this move towards greater consistency in tax definitions is a worthwhile simplification of the tax system.

3.13 The Government would welcome views on this proposal, that is –

- whether it would be a desirable simplification to exclude motor cycles from the capital allowances definition of a “car”?

Cars first registered before 1st March 2001

3.14 Cars which were first registered before 1 March 2001 do not have carbon dioxide emissions data on their registration documents. To avoid the need for businesses to ascertain emissions figures, it is proposed that expenditure on the provision of cars registered before 1

² Section 81 Capital Allowances Act 2001.

³ The new Annual Investment Allowance was introduced by Finance Act 2008 for expenditure incurred during and after April 2008. It is effectively a 100 per cent capital allowance for all business expenditure on plant and machinery, apart from cars, up to an annual amount of £50,000. So if motor cycles were no longer classed as cars, in future, business expenditure on buying them could qualify for the AIA. Expenditure on motorcycles incurred before 1 April 2009 (for corporation tax) and 6 April 2009 (for income tax) will not qualify for AIA.

March 2001 will be allocated to the main (20 per cent) pool regardless of their actual emissions. The Government would welcome views on this proposal, that is –

- whether it would be reasonable to allocate qualifying expenditure on all cars registered before 1 March 2001 to the main (20 per cent) plant and machinery pool?

Cars that do not have approved figures for CO₂ emissions

3.15 Cars sold in the United Kingdom and in other European Union (EU) countries are required to meet safety and environmental standards under European legislation. Each car must conform to a type (of which a sample has been submitted by the manufacturer or importer) that has been approved by a national certification agency. The level of CO₂ emitted by the car on a prescribed test cycle is one of the factors recorded during the type approval testing procedure. (The CO₂ emissions levels for different makes and models of cars can be found on the Vehicle Certificate Agency (VCA) website: www.vca.gov.uk.) Very small manufacturers are excluded. Typically, 'kit' cars produced by these manufacturers tend not to have low CO₂ emissions. The Government proposes that expenditure on cars that do not have an approved CO₂ emissions figure should either be pooled in the special rate pool or, if appropriate (that is, if used partly for private use) should be pooled in a single asset pool with the rate of WDA at 10 per cent in either case. The Government would also welcome views on this proposal, that is –

- whether it would be reasonable to allocate all cars, registered on or after 1 March 2001, without an approved CO₂ emissions figure to the special rate (10 per cent) pool?

Cars acquired before the commencement date of the new rules

3.16 Expenditure on a car that costs less than £12,000, incurred before either the 1 April 2009 (for corporation tax) or 6 April 2009 (for income tax), will be pooled in the general P&M pool. It is proposed to leave the capital allowances treatment of this expenditure unchanged. The expenditure will remain in the main (20 per cent) P&M pool regardless of the car's emissions.

3.17 Under the current rules, expenditure that has been incurred on the provision of a car that costs more than £12,000 and that has no non-business use will be pooled in a single asset pool. It is proposed to maintain this treatment, together with WDAs of 20 per cent, under the current rules for a period of five years. For these cars, therefore, WDAs will continue to be capped at £3,000 per annum for that period. If the car is disposed of before the end of the five years, a balancing adjustment will be made. But if there remains any balance of unrelieved expenditure in the relevant pool after the five year period, this balance will be taken to the main P&M pool where it will be added to the pool of unrelieved expenditure.

3.18 It is proposed that the transitional period will end on the last day of the business's first chargeable period to end on or after 31 March 2014 (for corporation tax) or 5 April 2014 (for income tax). This is to avoid convoluted computations where a chargeable period straddles 1/6 April.

An example

3.19 A company buys a luxury car on 1 January 2008 at a cost of £100,000. Its accounting period ends on 31 December each year. This is an expensive car and will go into a single asset pool on acquisition. It is pre-April 2009 expenditure, so allowances will be calculated under the old rules for the transitional period. The transitional period will end on 31 December 2014 (the last day of the first accounting period to end after 1 April 2014). The company will be entitled to WDAs restricted to £3,000 for each of the 7 years ending 31 December 2008 – 2014. At 31 December 2014 there is unrelieved expenditure of £79,000 in the single asset pool which will be

transferred to the main pool. In the year ending 31 December 2015 the company will claim WDAs of 20 per cent on all the unrelieved expenditure in that main pool. If the car is sold on 1 June 2016 the disposal proceeds will reduce the available qualifying expenditure in the main pool.

3.20 It is only the balance of unrelieved expenditure on cars that cost more than £12,000, with no use other than for the purpose of the qualifying activity, which has been accounted for in single asset pools that will need to be transferred at the end of the transitional period; all other expenditure will either remain in the main pool or remain in a single asset pool (with WDAs at 20 per cent.)

3.21 Expenditure on cars, purchased prior to April 2009 and allocated to single asset pools in order that adjustments for non business use can be made, will continue in single asset pools and will continue to attract WDAs at 20 per cent after the transitional period has ended until the car has been disposed of, regardless of their CO₂ emissions.

Capital allowances commencement of new rules – transitional provisions

3.22 The general capital allowances rule is that expenditure is incurred as soon as there is an unconditional obligation to pay it, providing the expenditure is due to be paid within four months. Where an agreement provides that capital expenditure does not have to be paid for longer than four months after the unconditional obligation has come into being, the capital expenditure is treated as having been incurred when the requirement to pay arises. Therefore, for example, if a contract to purchase cars is entered into on 31 March 2009 and it requires payment to be made on 31 July 2009, then the payment obligation is treated as arising on 31 March 2009, and the expenditure is treated as having been incurred on that date. There is nothing to limit the amount paid during or at the end of this four month period, and these payments could relate to cars that are to be delivered well after that date. These rules could be used to ensure that substantial amounts of expenditure are treated as having been incurred on 31 March 2009, and thus within the current capital allowances rules, even though the cars are not delivered for some time after the new regime has started.

Expenditure under a contract that provides for the car to be delivered on or after 1 August 2009 (for corporation tax) or 6 August 2009 (for income tax)

3.23 The question of which rules to apply will depend on when the contract under which the expenditure is incurred becomes unconditional.

- Where the contract becomes unconditional after 8 December 2008 (and the car is to be made available on or after 1/6 August 2009) then all of the expenditure will fall to be treated under the new rules, even where it is incurred before 1 or 6 April 2009.
- Where the contract became unconditional on or before 8 December 2008 (and the car is to be delivered on or after 1/6 August 2009) all of the expenditure that is required (under the terms of the contract as it existed at 8 December 2008 to be incurred before 1/6 April 2009 will fall to be treated within the current rules. Expenditure incurred after 1/6 April 2009 will be within the new rules.

3.24 It is possible that a proportion of expenditure on a car might fall to be treated under the current rules and another proportion will fall to be treated under the new rules. If that is the case the “old” and “new” expenditure will be treated for capital allowances purposes as if it was incurred on the provision of separate but identical, cars or motorcycles. When the vehicle is disposed of the disposal proceeds are to be apportioned in a just and reasonable manner.

Expenditure on car hire

3.25 Currently businesses face a reduction in the amount of rental payments allowable as a deduction -

- in computing profits chargeable to corporation tax⁴ or
- in calculating the profits of a trade⁵

for expenditure incurred on the hiring of a car or motorcycle (other than a ‘qualifying hire car’)⁶ where the retail price of the vehicle, when new, exceeds £12,000.

3.26 The amount of rental deduction that would otherwise be allowed is reduced by multiplying it by a fraction which takes into account the retail price of the vehicle when new.

3.27 The restriction currently applies to every lessee in a chain of leases.

Proposals for leases entered into after 1 April 2009 (corporation tax) or 6 April 2009 (income tax)

3.28 For the purposes of the current reforms, it is proposed that a lease will be regarded as entered into at the date of commencement, that is, the date on and after which the lessee is entitled to exercise his right to use the complete leased asset (the car) under the lease.

3.29 Where leases commence after the date the new rules come into effect (1 April 2009 for corporation tax, 6 April 2009 for income tax), the reduction in the amount of car lease rental allowable will be applied only to expenditure on cars with carbon dioxide emissions over 160g/km. Furthermore, the new rules will provide that the reduction will -

- be a flat rate reduction of 15 per cent of the amount of the deduction that would otherwise be allowed.
- apply only to one lessee in a chain of leases (in most cases to the last business user).
- apply to all cars, including ‘qualifying hire cars’, but not to motorcycles.

3.30 Businesses that provide cars on short term hire (daily hire cars) may provide a car for a period to a business user and for a different period to a non-business user. In order to avoid the necessity of tracking the use of each individual car to establish the period when the business is the last business in a chain of leases, and the calculation of the proportion of rentals to which a restriction might apply, the rules will provide for a business that hires cars on short term to other persons (such as daily hire car firms) to be treated as the last business user in a chain of leases, regardless of to whom the car is actually hired.

3.31 As explained above, expenses under a lease that commences after 1/6 April 2009 will be treated under the new rules, but if there is an existing, unconditional contract to lease car(s) in place at 8 December 2008 the intention is to allow the lessee to elect to use the current rules to

⁴ Section 578A ICTA 1988

⁵ Section 48 ITTOIA

⁶Section 578B & Section 82 CAA2001

calculate the restriction to be applied to the payments under the lease. However, in order to protect the Exchequer against the potential effects of forestalling contracts, for the provision of (possibly unspecified numbers) of cars, possibly stretching for years into the future, the legislation will contain appropriate anti-avoidance provisions. Broadly, the intention is that the legislation will provide for the lessee to use the current rules to calculate the restriction, where the contract was finalised before 8 December 2008 but only where the contract provides for the car to be made available to the lessee before 1 April 2010 (for corporation tax purposes) or 6 April 2010 (for income tax purposes).

Treatment of cars leased by business before the date(s) of commencement of the new rules

3.32 Expenditure incurred under the lease of a car with a retail price when new of more than £12,000, that commenced before 1 April 2009 (for corporation tax) or before 6 April 2009 (for income tax) will be subject to the current rules for reducing the amount of rental payments allowable as a deduction for tax. The restriction will continue to be calculated by reference to the formulae in section 578A of the Income and Corporation Taxes Act 1988 (ICTA) or section 48 of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA) respectively, until the termination of the lease.

Policy rationale for applying a reduction to the amount allowable for tax for expenditure incurred on the hiring of certain cars

3.33 The restriction on amounts allowed for tax for expenditure incurred on the hiring of a car with carbon dioxide emissions above 160g/km is intended to prevent businesses from circumventing the environmental focus of the reform, in particular the lower rate of WDAs available in the special rate pool.

3.34 The 10 per cent WDAs for cars with higher CO₂ emissions is intended to act as a disincentive against the choice of these cars. If there were no restriction on expenditure for hire, then leasing from an overseas lessor (who might enjoy a more generous rate of depreciation allowance than the proposed 10 per cent rate) would be potentially more attractive to UK lessees. An overseas head lessor in a jurisdiction with depreciation allowances for cars greater than 10 per cent could potentially offer to lease cars above the threshold for lower rentals than an otherwise comparable UK lessor. This would effectively undermine any environmental impact of the policy.

Anti avoidance measures

3.35 The Government intends to introduce provisions to counter the situation where a business enters into a transaction wholly or mainly to claim a tax benefit under either current or new rules that either would not otherwise be due or would otherwise be less than the amount claimed. These provisions will include (but are not restricted to) those mentioned above in respect of transitional and commencement rules. They will also include -

- rules to prevent businesses from re-leasing existing cars in order to bring the lease into the new rules and
- rules to prevent the artificial winding up of businesses to generate a balancing adjustment on the cessation of the main and or special rate (P&M) pools.

Summary of points on which the Government requests comments:

3.36 The Government would welcome views from business and other interested parties on the following:

- do the draft clauses deliver the Government's stated policy aims, and, if not, what changes are required to do so?
- would it be a desirable simplification to exclude motor cycles from the capital allowances definition of a "car"?
- is the proposed 5-year transitional period reasonable?
- would it be reasonable to allocate all expenditure incurred after commencement on cars registered before 1 March 2001 to the main (20 per cent) capital allowances pool?
- would it be reasonable to allocate expenditure on all cars, registered on or after 1 March 2001, without an approved CO₂ emissions figure, to the special rate (10 per cent) pool?

4

Draft Legislation & Explanatory Notes

4.1 This section contains the draft Explanatory Notes based on the current draft of the legislation. The current draft of the legislation includes references to the Corporation Tax Act 2009 (CTA). (CTA restates sections 578A and 578B for insurance companies (in ICTA). The restated sections will be subject of amendments having the same effect as the amendments of sections 578A and 578 B of ICTA.)

4.2 This schedule is in 2 parts: the first deals with amendments that are to be made to the Capital Allowances Act 2001 (CAA), the second details amendments to other Acts. The way in which the regime will operate is described as if it were in Schedule 1 to the Finance Act (FA) 2009.

SCHEDULE 1

Part 1

Capital Allowances

Plant and machinery allowances for cars and motor cycles

4.3 Paragraph 1 provides that Part 2 (plant and machinery allowances) of the CAA is to be amended as follows.

4.4 Paragraph 2 amends general exclusion 2 in section 38B of CAA (General exclusions from Annual Investment Allowance (AIA) qualifying expenditure) by substituting new section 268A of CAA (meaning of “car” and “motorcycle”) for section 81 of CAA (Extended meaning of a car). This reflects that the new definition of a car can be found at new sections 268A to 268D of CAA. The previous definition at section 81 of CAA having been repealed by paragraph 4.

4.5 Paragraph 3 repeals sections 74 to 79 of CAA (Cars above the cost threshold) which are no longer required.

4.6 Sections 74 to 75 of CAA require that if expenditure on a car exceeds £12,000 that the expenditure be pooled in a single asset pool. Writing down allowance (WDA) is restricted to a maximum of £3,000 per annum.

4.7 Section 76 of CAA provides that where a person makes a contribution towards another party’s expenditure on a car costing more than £12,000, the person making the contribution can claim WDAs. However, the available WDAs for that car are restricted to a maximum of £3,000 per annum and must be shared between the two parties.

4.8 Sections 77 to 78 of CAA require that when a car is used for a non-qualifying purpose the WDA is restricted on a just and reasonable basis to ensure that only the proportion relating to business use may be claimed. On disposal of the vehicle any balancing charges/allowances are adjusted in the same way.

4.9 Section 79 of CAA is an anti-avoidance provision. It applies where a person sells a car to a connected party for a nominal amount.

4.10 Paragraph 4 repeals sections 81 (extended meaning of car) and 82 of CAA (qualifying hire cars). These sections provide general definitions of cars and qualifying hire cars.

4.11 Paragraph 5 amends section 104A of CAA (special rate expenditure) so that expenditure on certain cars, (those that are not “main rate cars”), will be special rate expenditure.

4.11.1 Sub-paragraph (1) introduces amendments to section 104A of CAA (meaning of “special rate expenditure”).

4.11.2 Sub-paragraph 5(2) (a) amends section 104A (1) (a) so that the relevant date to which it applies becomes the first relevant date for the purposes of section 104A CAA.

Sub-paragraph 5(2) (b) deletes “and” from 104A (1) (c) which is no longer necessary.

Sub-paragraph 5(2) (c) introduces a new subsection (104A (1)(e)). This subsection provides that expenditure incurred on a car on or after the “second relevant date” which is not a “main rate car”¹ is special rate expenditure.

4.11.3 Sub-paragraph (3) amends section 104A (2) to insert the word “first” before the words “relevant date” as the amendments to this section introduce a second relevant date.

4.11.4 Sub-paragraph (4) inserts two new subsections to section 104A.

New subsection 104A (3) defines “second relevant date” for the purposes of section 104A (1)(e). It provides that it applies to expenditure incurred from

- (a) 1 April 2009 for corporation tax and
- (b) 6 April 2009 for income tax.

New subsection 104A (4) provides that:

- “car” takes the meaning in new section 268A;
- “main rate car” takes the meaning in new section 104AA.

4.12 Paragraph 6 inserts new section 104AA of CAA (meaning of “main rate car”).

Meaning of “main rate car”

New section 104AA defines “main rate car”

4.12.1 Subsection (1) explains that “main rate car” means

- a car that is first registered before 1 March 2001;
- a car that has “low CO₂ emissions”²; or
- a car that is electrically propelled.

4.12.2 Subsection (2) provides that a car has low CO₂ emissions if it meets Conditions A and B (in subsections (3) and (4)).

4.12.3 Subsections (3) and (4) define conditions A and B.

- **Condition A** is that when the car was first registered it is so registered on the basis of a “qualifying emissions certificate”; and

¹ “Main rate car” is defined in section 104AA CAA 2001

² For the purposes of this section the meaning of a car that has low CO₂ emissions is defined in new section 104 AA CAA 2001

- **Condition B** is that the “applicable CO₂ emissions figures” in relation to that car does not exceed 160 grams per kilometre driven.

4.12.4 Subsections (5) and (6) give the Treasury a power to amend by Order the applicable CO₂ emission figure.

4.12.5 Subsection (7) defines:

- “applicable CO₂ emissions figure” and “qualifying emissions certificate” have the meaning in new section 268C of CAA;
- “car” has the meaning in new section 268A of CAA; and
- “electrically propelled” has the meaning in new section 268B of CAA

4.13 Paragraph 7 inserts new sections, (268A, 268 B and 268C) into CAA.

Cars etc

New section 268A (meaning of “car” and “motor cycle”) defines what is meant by “car” and “motor cycle”.

4.13.1 Subsection (1) defines a car as being a mechanically propelled road vehicle, which is not:

- a motorcycle;
- a goods vehicle; or
- is of a type not normally used as a private vehicle,, and is unsuitable for such use.

4.13.2 Subsection (2) defines a motorcycle, by reference to section 185(1) of the Road Traffic Act 1988.³

4.13.3 New section 268B (Electrically-Propelled vehicles) defines an electrically-propelled vehicle as being one which is propelled solely by electrical power, with the power being derived either:

- from a source external to the vehicle or
- electrical storage battery which is not connected to a source of power when the car is in motion.⁴

4.13.4 New section 268C (Terms relating to emissions) defines various terms relating to emissions.

4.13.5 Subsection (1) defines a “qualifying emissions certificate” as either:

- (i) an EC certificate of conformity; or
- (ii) UK approval certificate that specifies:
 - in the case of vehicles other than, bi-fuelled vehicles, a CO₂ emissions figure in terms of grams per km driven; or
 - in the case of a bi-fuel vehicles separate CO₂ emission figures in terms of grams per km driven for the different fuels used.

4.13.6 Subsection (2) defines the “applicable CO₂ emissions figure” (for the purposes of new subsection 104AA of CAA) in the case of vehicles, other than a bi-fuel vehicle, as being either:

³ A mechanically propelled vehicle, not being an invalid carriage, with less than four wheels and the unladen weight of which does not exceed 410 kilograms

⁴ This excludes hybrid vehicles where the battery is charged by an onboard internal combustion engine.

- the figure given in the “qualifying emissions certificate”; or
- in the case of two CO₂ figures being given, the figure given as the “CO₂ emissions (combined) figure”.

4.13.7 Subsection (3) defines the applicable CO₂ emissions figure, (for the purposes of section 104AA (4) of CAA) in the case of bi-fuelled vehicles as being:

- where the qualifying emissions certificate specifies more than one CO₂ emissions figure in relation to each fuel, the lowest “CO₂ emissions (combined) figure” specified, and
- in any other case the lowest CO₂ figure specified by the certificate.

4.13.8 Subsection (4) provides additional definitions.

- “bi-fuel” means vehicles capable of being propelled by petrol and road fuel gas; or diesel and road fuel gas;
- “diesel” means any diesel fuel within the definition of Article 2 of Directive 98/70/EC;
- “EC certificate of conformity” means one issued by a manufacturer under any provision of the law of a member State implementing Article 6 of Council Directive 70/156/EEC;
- “petrol” has the meaning given by Article 2 of Directive 98/70/EC;
- “road fuel gas” has the same meaning as in section 171(1) of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA);
- “UK approval certificate” is one issued under:
 - Section 58(1) or (4) of the Road Traffic Act 1988, or
 - Article 31A (4) or (5) of the Road Traffic (Northern Ireland) Order 1981.

Consequential amendments of CAA 2001

4.14 Paragraph 8 provides that the following paragraphs make a number of amendments to CAA.

4.15 Paragraph 9 amends section 33(7) (personal security) by substituting new section 268A (meaning of “car” and “motorcycle”) for section 81 (extended meaning of a car) (section 81 is being repealed by paragraph 4.)

4.16 Paragraph 10 makes amendments to section 45D of CAA (expenditure on cars with low carbon dioxide emissions) to refer to the new definitions in new sections 268A, 268B and 268C.

4.16.1 Sub-paragraph (1) provides that the following paragraphs make various amendments to section 45D of CAA (expenditure on cars with low carbon dioxide emissions).

4.16.2 Sub-paragraphs (2) to (5) make various changes to sections 45D (1) to (4) that are required to reflect the new definitions in new sections 268A to 268C of CAA (see above).

4.16.3 Sub-paragraph (6) omits subsections 45D (5) and (6) of CAA (which define the applicable CO₂ emissions figures for a car other than a bi-fuel car (subsection 45D (5) and a bi-fuel car (subsection 45D (6)), as these definitions are in new sections 268A to 268C CAA (see above).

4.16.4 Sub-paragraph (7) amends subsection 45D (8) of CAA. It ensures that “car” is defined in accordance with the new section 268A of CAA and deletes subsection 45D(8)(b), which is no longer necessary as the new definition of “car” does not include motor cycles.

4.16.5 Sub-paragraph (8) omits subsections 45D (9) and (10) of CAA as the definitions in these subsections⁵ (which are for the purposes of this section) are now included in the new sections 268A to 268C of CAA.

4.16.6 Sub-paragraph (9) adds a new subsection (11) to section 45D of CAA which provides that:

- “applicable CO₂ emissions figures” and “qualifying emissions certificate” have the meaning given in new section 268C of CAA; and
- “electrically propelled” has the meaning given in new section 268B of CAA.

4.17 Paragraph 11 amends section 46(2) (general exclusions (for first year allowance expenditure)). General exclusion 2 is amended by substituting the new section 268A definitions of “car” and “motorcycle”, in place of the definition in section 81 (Extended meaning of “car”) which has been repealed.

4.18 Paragraph 12 amends section 54 of CAA (the different kinds of pools). In subsection (3) reference to “section 74” (a car above the cost threshold) is omitted to reflect its repeal.

4.19 Paragraph 13 amends section 65 of CAA (the final chargeable period) to omit reference to subsection 77(1) which is repealed.

4.20 Paragraph 14 amends section 66 of CAA (list of provisions outside this Chapter about disposal values) to omit the reference to section 79 as it is being repealed.

4.21 Paragraph 15 amends the Table in section 84 of CAA (cases in which short-life asset treatment is ruled out) to reflect the newly defined terms in sections 268A and 268D.

4.21.1 Sub-paragraph (1) provides for amendments to be made to the table found in section 84 of CAA (cases in which short life asset treatment is ruled out).

4.21.2 Sub-paragraph (2) substitutes “is a car or motorcycle (as defined by section 268A)” in the place of “is a car as defined by section 81” in the first column, headed “short-life asset treatment ruled out”, of Item 3. This replaces the old definition of a “car” (section 81) with the revised definition of a car and a motorcycle in new section 268A. This paragraph also amends item 3 in the second column, headed “exceptions”, so that where the car is a hire car for a disabled person it continues to be excepted from the exclusion.

4.21.3. Sub-paragraph (3) inserts in the second column of item 4; “The expenditure is incurred on the provision of a car that is a hire car for a disabled person (as defined in section 268D)”.

4.21.4 Sub-paragraph (4) inserts in the second column of item 5; “a hire car for a disabled person (as defined in section 268D)” as a substitute for “which is within section 82(4) (cars hired out to persons receiving disability allowances etc)”.

4.22 Paragraph 16 amends section 86 of CAA (short-life assets) to reflect that if the final chargeable period for a short life asset pool has not occurred before the four year cut-off the balance of unrelieved expenditure will be taken to either in the main pool or special rate pool, depending on their CO₂ emissions.

⁵ S45 D (9) electrically propelled car; S45 D (10) “bi-fuel car”, “car”, “diesel”, “EC certificate of conformity”, “petrol”, “road fuel gas” and “UK approval certificate”

4.22.1 Sub-paragraph (1) amends section 86 of CAA (short life asset pool) as follows

4.22.2 Sub-paragraph (2) substitutes “appropriate pool” for “main pool” in subsection 86(2) (b).

4.22.3 Sub-paragraph (3) inserts a new subsection 86(5). It defines “appropriate pool” as including:

- (a) in the case of expenditure incurred on the provision of a car that is not a main rate car (as defined in section 104A of CAA), the special rate pool, and
- (b) in any other case, the main pool.

4.23 Paragraph 17 amends section 96 of CAA (expenditure on cars excluded from being long life asset expenditure) by substituting the wording “car or motor cycle (as defined by section 268A)” in the place of “car as defined by section 81 (extended meaning of a car)”. This reflects the revised definition of car and motor cycle at (new) section 268A of CAA.

4.24 Paragraph 18 adds a new section 268D of CAA (hire cars for disabled persons). This new section provides a definition of a “hire car for a disabled person”.

Hire cars for disabled persons

4.24.1 Subsection (1) provides that a car is a hire car for a disabled person if it is provided wholly, or mainly, for hire to, or the carriage of, disabled persons in the course of a trade.

4.24.2 Subsection (2) defines a “disabled person” as being a person in receipt of:

- a disability living allowance under:
 - the Social Security Contributions and Benefits Act 1992; or
 - the Social Security Contributions and Benefits (Northern Ireland) Act 1992

because of entitlement to the mobility component,

- a mobility supplement under a scheme made under the Personal Injuries (Emergency Provisions) Act 1939;
- a mobility supplement under an Order in Council made under section 12 of the Social Security (Miscellaneous Provisions) Act 1977; or
- a payment that appears to the Treasury to be similar to those mentioned in paragraphs (a) to (c) and that is specified by them by order.

(These replicate the existing definition found in section 82(4) of CAA.)

4.25 Paragraph 19 amends the defined expressions in Part 2 of Schedule 1 to reflect the new definitions that are being introduced .

4.25.1 Sub-paragraph (1) amends definitions found in Part 2 of Schedule 1 to CAA (defined expressions)

4.25.2 Sub-paragraph (2) amends the entry for “car (in part 2)” by substituting “section 268A” of CAA in the place of “section 81” of CAA, to reflect the new definition of a car.

4.25.3 Sub-paragraph (3) adds the additional defined definitions

- “applicable CO₂ emissions figure (in Part 2) section 268C”
- “electrically-propelled (in Part 2) section 268B”

- “hire car for a disabled person (in Part 2) section 268D”
- “motor cycle (in Part 2). section 268A”
- “qualifying emissions certificate (in Part 2) section 268C”

4.26 Paragraph 20 amends schedule 3 by deleting “paragraph 19 (cars above the cost threshold)” and the heading “(Cars etc)” from Schedule 3 as these are no longer relevant.

Commencement

4.27 Paragraphs 21 to 23 set out the dates and events from which the new legislation takes effect by reference to “relevant dates”. They also provide transitional rules for expenditure incurred on cars and motor cycles before 1 April 2009 (for corporation tax) and 6 April 2009 (for income tax).

4.28 Paragraph 21 defines the “relevant dates”.

4.28.1 Sub-paragraph (a) provides that the “first relevant date” is 1 April 2009 for corporation tax and 6 April 2009 for income tax.

4.28.2 Sub-paragraph (b) provides that the “second relevant date” is 1 August 2009 for corporation tax and 6 August 2009 for income tax.

4.28.3 Sub-paragraph (c) provides that the “third relevant date” is 1 April 2014 for corporation tax and 6 April 2014 for income tax.

4.29 Paragraph 22 provides that the new rules apply to expenditure incurred after the first relevant date and also to expenditure incurred before the first relevant date where it is incurred under an agreement entered into after 8 December 2008 and the car is not required to be made available until the second relevant date.

4.29.1 Sub-paragraph (1) provides that the amendments made by this Part of the Schedule (the new rules) apply to:

- (a) expenditure incurred on or after the first relevant date; and
- (b) expenditure incurred before that date to which sub-paragraph (2) applies.

4.29.2 Sub-paragraph (2) applies to expenditure where:

- (a) it is incurred under an agreement for the provision of a car entered into after 8 December 2008 and
- (b) under that agreement the car is not required to be made available before the second relevant date.

4.29.3 Sub-paragraph (3) provides that in the case of sub-paragraph (2) an agreement is entered into on the date on which the following conditions are met:

- there is a contract in writing for the provision of the car ,
- the contract is unconditional or, if it is conditional, the conditions have been met, and
- no terms remain to be agreed.

4.30 Paragraph 23 provides for certain expenditure to be grandfathered by providing that the repeal of sections 74 to 79 of CAA, and amendments made by paragraphs 12 to 14, does not apply to expenditure

- (a) incurred on a car or motor cycle **before** the first relevant date, and
 - (b) to which sub-paragraph (2) does not apply,
- until the third relevant date.

Transitionals

4.31 Paragraph 24 applies to vehicles where some expenditure falls under the “new rules” and some falls under the “old rules”. It sets out how the disposal receipts should be accounted for. They are to be apportioned in a “just and reasonable manner”.

4.31.1 Sub-paragraph (1) applies where expenditure incurred by a person on the provision of a car or motorcycle includes both:

- expenditure described in sub-paragraph 22(1)(a) or (b) termed “new expenditure”; and
- other expenditure termed “old expenditure”

4.31.2 Sub-paragraph (2) provides that “new” and “old” expenditure is to be treated for the purposes of CAA as if they were incurred on the provision of separate, but identical, cars or motor cycles.

4.31.3 Sub-paragraph (3) provides that any amount required to be brought into account in connection with a disposal event in respect of a car or motor cycle in sub-paragraph (1) is to be apportioned in a just and reasonable manner between the two pools.

4.32 Paragraph 25 applies to those cars which were placed in a single asset pool for the purposes of section 74, (i.e. because they cost more than £12,000), prior to the new rules taking effect in April 2009, and there is a balance of unrelieved expenditure when the transitional period ends. It provides that in such cases any unrelieved expenditure for a single asset pool should be carried forward into the “main pool”.

4.32.1 Sub-paragraph (1) applies where

- expenditure described in paragraph 23 (expenditure to which the new rules do not apply) was required to be allocated to a single asset pool by section 74 of CAA,
- there is unrelieved expenditure in that pool at the end of a transitional chargeable period, and
- the unrelieved expenditure is not required to be allocated to a single asset pool by virtue of any other provision of part 2 of CAA.

4.32.2 Sub-paragraph (2) requires such expenditure to be carried forward to the main pool.

4.32.3 Sub-paragraph (3) defines a transitional period as being one that begins before the third relevant date and ends on or after that date.

4.33 Paragraph 26 provides further clarification about the definition of a disabled person. Subsection 82(4) of CAA and new subsection 268D(2) of CAA provide that a disabled person is one in receipt of certain specified allowances or supplements. Subsection 82(4)(d) of CAA, and new subsection 268D(2)(d) of CAA, gives the Treasury a power to make Orders including other payments in this definition.

This paragraph provides that any such orders that may be made by the Treasury under subsection 82(4)(d) of CAA before the first relevant date and which are still in effect, have effect on and after that date as if they had been made under new subsection 268D(2)(d).

Interpretation

4.34 Paragraph 27 provides definitions that apply in this Part of this Schedule.

4.34.1 Sub-paragraph (a) explains that in this Part of the Schedule “car” and “motorcycle” have the meaning given in section 268A of CAA (which is inserted by this Part).

4.34.2 Sub-paragraph (b) provides that other expressions used in this Part of this Schedule and in Part 2 of CAA have the same meaning here as in that Part of that Act.

Part 2 of Schedule

Restrictions On Deductions For Hire Expenses

4.35 The following paragraphs make a number of amendments to ITTOIA, CTA and ICTA.

Income tax

4.36 Paragraph 28 explains that a number of amendments are made to ITTOIA.

4.37 Paragraph 29 amends subsection 31(1) (b) (relationship between rules prohibiting and allowing deductions) by deleting “motor cycle”, to reflect that motor cycles are no longer treated as cars.

4.38 Paragraph 30 explains that various amendments are made to section 48 of ITTOIA (rules restricting deductions from profits: car or motorcycle hire). This section currently applies to leased cars that cost over £12,000 when new and restricts, by means of a stated formula, the amount of car hire costs a taxpayer can claim as a deduction from taxable profits for the purposes of income tax. This mechanism is to be replaced with a system, based on the CO₂ emissions of cars, which applies a 15% disallowance to rental costs of hired cars that emit more than 160 grams of CO₂ per km driven.

4.38.1 Sub-paragraph (1) provides that section 48 of ITTOIA is amended.

4.38.2 Sub-paragraph (2) deletes “motorcycles”, which are not subject to the new rules, from subsection 48(1) of ITTOIA, and substitutes a new definition of those cars which are not subject to the new rules. These are:

- (a) a car that is first registered before 1 March 2001,
- (b) a car that has low CO₂ emissions,
- (c) a car that is electrically propelled, or
- (d) a qualifying hire car.

4.38.3 Sub-paragraph (3) amends subsection 48(2) of ITTOIA by deleting the existing formula used to calculate the restriction that is applied to rental costs of leased cars that cost more than £12,000 when new, and replaces it with a flat rate 15 per cent reduction that will apply in respect of cars that emit more than 160 grams of CO₂ per kilometre driven.

4.38.4 Sub-paragraph (4) amends subsection 48(4) of ITTOIA by deleting the words “multiplying it by the fraction in subsection (2)” and replacing them with “15%”, to reflect the new 15 per cent flat rate reduction.

4.38.5 Sub-paragraph (5) deletes “motor cycles” from subsections 48(4A) (a) and (b), references to which are no longer necessary.

4.38.6 Sub-paragraph (6) deletes subsection 48(5) of ITTOIA which gives the Treasury a power to amend by Order the calculation at subsection 48(3) of ITTOIA. As the old calculation has been replaced with a flat rate reduction it is no longer required.

4.38.7 Sub-paragraph (7) deletes “or motorcycle” from the heading of section 48 ITTOIA as it is no longer required as motor cycles are not subject to the new rules.

4.39 Paragraph 31 amends section 49 of ITTOIA which provides definitions for section 48.

4.39.1 Sub-paragraph (1) explains that this paragraph makes various amendments to section 49 (car or motorcycle hire: supplementary) ITTOIA and adds an additional definition.

4.39.2 Sub-paragraph (2)(a) deletes from subsection 49(1) of ITTOIA the wording “or motorcycle” which is no longer necessary as a motorcycle is no longer a car for the purposes of section 48 of ITTOIA.

Sub-paragraph (2) (b) omits the word “one” which is no longer necessary.

Sub-paragraph (2) (c) inserts a new subsection 49(1) (za) before subsection 49(1) (a) of ITTOIA. It ensures that a motor cycle, as defined by section 185(1) of the Road Traffic Act 1988, is excluded from the 15 per cent leasing restriction.

Sub-paragraph (2) (d) inserts “a vehicle” at the beginnings of subsections 49(1) (a) and (b) for clarification.

4.39.3 Sub-paragraph (3) inserts a new subsection 49(1A). It provides that for the purposes of section 48

- “a car that has low CO₂ emissions” should take the meaning given in new section 104AA CAA, inserted by paragraph 6 above; and
- “electrically propelled” should take the meaning given in the new section 268B of CAA (see 4.22 above).

4.39.4 Sub-paragraph (4) amends subsection 49(2) of ITTOIA, which explains what a qualifying hire car is, by deleting motor cycles from the definition. Sub-paragraph 49(2)(c) is no longer required as section 82 CAA has been omitted.

4.39.5 Sub-paragraph (5) amends subsection 49(6) of ITTOIA, which defines the word “new”. The words “and section 48” are deleted because section 48, as amended, no longer uses the word “new”.

4.39.6 Sub-paragraph (6) deletes “or motorcycle” from the heading of section 49 as it is no longer required.

4.40 Paragraph 32 deletes section 50 of ITTOIA (hiring cars with low CO₂ emissions). That section provides that the costs of hiring low CO₂ emissions cars are not subject to the lease rental restriction. But it is now no longer required as this has been provided for in subsection 48(1) of ITTOIA.

4.41 Paragraph 33 adds new section 50A of ITTOIA (Short Term Hire and Hiring to other Businesses). This is the section that limits the application of section 48 to the expenses of only one person (generally the last business user) where there is a chain of leases, that is, where there is a chain of leases only one lessee will suffer a restriction on deductions for car hire expenses. This paragraph effectively describes the rules to determine the last business user that will suffer the restriction. A short term hire business will be treated as the last business user in the chain so that a business that hires a car on short term hire will not suffer a restriction on its deductions for car hire expenses..

4.41.1 Subsection (1) provides that section 48 of ITTOIA does not apply to the costs incurred by a taxpayer of hiring of a car if either Condition A or B is met.

4.41.2 Subsection (2) explains that Condition A is met if the car is made available to the taxpayer by another person in the course of a short-term hire business carried on by that person. “Short-term hire business” is defined in subsection 50A (5) (see 4.41.4).

4.41.3 Subsection (3) provides that Condition B is met if:

- the taxpayer makes the car available to another person (“the customer”) who is not a related person;
- the car is made available under a legally binding arrangement other than in the course of a short-term hire business for the purposes of a trade, profession, vocation or investment business carried on by the customer; and
- it is not subsequently made available (whether by the customer or otherwise) to a person who is related to the taxpayer.

4.41.4 Subsection (4) provides a number of definitions for the purposes of section 50A. These are:

- “investment business” has the same meaning as in Part 16 of CTA;
- “property business” includes property businesses as defined in section 204 CTA;
- “related person” in relation to a taxpayer, means a person who is:
 - (a) connected with the taxpayer; or
 - (b) an employee, officer or agent of the taxpayer or of a person connected with the taxpayer
- “short-term hire business” means a business consisting of the making available of cars where:
 - (a) a car is normally made available to the same person for less than 30 consecutive days; and
 - (b) it is normally made available to the same person for less than 90 days in any period of 12 months.

4.41.5 Subsection (5) provides that where conditions A and B are met but only for part of a chargeable period, the taxpayer must apportion the rental expenses between the parts of that period where the conditions are and are not met on a pro-rata basis to calculate any rental restriction due.

4.42 Paragraph 34 amends subsection 247(1) of ITTOIA (other rules about what counts as post-cessation receipts) by omitting the words “or motorcycle”.

4.43 Paragraph 35 amends the Table in subsection 272(2) of ITTOIA (profits of a property business: application of trading income rules) to reflect the amendments to sections 48 to 50 and the introduction of section 50A.

4.44 Paragraph 36 amends subsection 274(1) (b) of ITTOIA (relationship between rules prohibiting and allowing deductions) by deleting the words “or motor cycle” as section 48 ITTOIA no longer applies to motorcycles.

4.45 Paragraph 37 amends subsection 354(2) of ITTOIA (other rules about what counts as post-cessation receipts), by deleting the words “or motorcycle”.

4.46 Paragraph 38 amends Schedule 2 to ITTOIA (transitionals and savings), by deleting paragraphs 16 and 17, and the heading before them.

Corporation tax

4.47 Paragraph 39 provides that the following paragraphs make a number of amendments to CTA.

4.48 Paragraph 40 amends subsection 51(1) (b) (i) (relationship between rules prohibiting and allowing deductions) as motor cycles are not included in the new rules.

4.49 Paragraph 41 amends section 56 which currently applies to hired cars that cost over £12,000 when new and restricts, by means of a calculation using a given formula, the amount of the leasing costs a lessee can deduct from profits for the purposes of corporation tax. This system is to be replaced with a regime based on the CO₂ emissions of cars, rather than cost, which applies a 15 per cent disallowance to the rental costs of leased cars that emit more than 160 grams of CO₂ per km driven.

4.49.1 Sub-paragraph (1) explains that various amendments are made to section 56 of CTA (rules restricting deductions from profits: car or motorcycle hire) by this paragraph.

4.49.2 Sub-paragraph (2) deletes “motorcycles”, from subsection 56(1) of CTA as they are not subject to the new rules. It also includes a new definition of those cars which are not subject to the new rules. These are:

- (a) a car that is first registered before 1 March 2001;
- (b) a car that has low CO₂ emissions;
- (c) a car that is electrically propelled; or
- (d) a qualifying hire car (as defined in section 57 of CTA).

4.49.3 Sub-paragraph (3) amends subsection 56(2) by deleting the existing formula, used to calculate the restriction that is applied to leased cars that cost more than £12,000 when new, and replacing it with a flat rate 15 per cent reduction, that will apply to cars that emit more than 160 grams of CO₂ per kilometre driven.

4.49.4 Sub-paragraph (4) amends subsection 56(4) to reflect the new 15 per cent flat rate reduction.

4.49.5 Sub-paragraph (5) deletes “motorcycles” from subsections 56(5) (a) and (b) references to which are no longer necessary as motor cycles are not within the new rules.

4.49.6 Sub-paragraph (6) deletes subsection 56(6) which gave the Treasury an Order making power to amend the calculation at subsection 48(3) of CTA. As the calculation has been replaced with a flat rate reduction it is no longer required.

4.49.7 Sub-paragraph (7) deletes “or motorcycle” from the heading of section 56 as it is no longer relevant.

4.50 Paragraph 42 amends section 57 of CTA (car or motorcycle hire: supplementary) to reflect the new and additional definitions that are needed for the new rules

4.50.1 Sub-paragraph (1) explains that this paragraph makes various amendments to section 57.

4.50.2 Sub-paragraph (2) (a) deletes from subsection 57(1) the wording “or motorcycle” which is no longer necessary.

Sub-paragraph (2) (b) omits the word “one” which is no longer necessary.

Sub-paragraph (2) (c) inserts a new subparagraph 57(1)(za) before subparagraph 57(1)(a) of CTA, making clear that a motor cycle, as defined by section 185(1) of the Road Traffic Act 1988, is excluded from the 15 per cent leasing reduction.

Sub-paragraph (2) (d) inserts “a vehicle” at the beginnings of subsections 57(1)(a) and (b) CTA for clarification.

4.50.3 Sub-paragraph (3) inserts a new subsection 57(1A) of CTA. It defines that for the purposes of section 56

- “a car that has low CO₂ emissions” takes the meaning given in section 104AA of CAA (see 4.19 above); and
- “electrically propelled” takes the meaning given in the new section 268B of CAA (see 4.22 above).

4.50.4 Sub-paragraph (4) amends subsection 57(2) of CTA, which provides a definition of “qualifying hire car”, to reflect the fact that motor cycles are no longer within the meaning of “qualifying hire car”.

4.50.5 Sub-paragraph (5) amends subsection 57(8) by deleting the words “and section 56”. This is because section 56 of CTA as amended no longer uses the word “new”.

4.50.6 Sub-paragraph (6) deletes “or motorcycle” from the heading of section 57 as motorcycles are no longer within section 57.

4.51 Paragraph 43 deletes section 58 of CTA (hiring cars with low CO₂ emissions before 1 April 2013). That section provides that low CO₂ emissions cars are not subject to the lease rental restriction, but it is now no longer required as it has been incorporated into section 56(1) of CTA.

4.52 Paragraph 44 adds new section 58A into CTA “Short Term Hire and Hiring to other Businesses”. The purpose of this section is to provide that the restriction in section 56 of CTA only applies in relation to the final business user of the car where it is hired under a chain of leases. Section 56 does not apply to persons who enter into short term hire agreements for their cars; the businesses that provide cars on short term hire are the final business users for these purposes.

4.52.1 Subsection (1) provides that section 56 does not apply to the costs incurred by a taxpayer of hiring of a car if either Condition A or B apply.

4.52.2 Subsection (2) provides that Condition A is met if the car is made available to the taxpayer by another person in the course of a short-term hire business.

4.52.3 Subsection (3) provides that Condition B is met if:

- the taxpayer makes the car available to another person (“the customer”) who is not a related person;
- it is made available under a legally binding arrangement for the purposes of a trade, profession, vocation, investment business or property business carried on by the customer, except on short term hire; and
- it is not subsequently made available (whether by the customer or otherwise) to a person who is a related person in relation to the taxpayer.

4.54.4 Subsection (4) provides a number of definitions for the purposes of section 58A. These are:

- “investment business”. has the same meaning as in Part 16 of CTA 2009;

- “property business” includes property businesses within section 263(6) of ITTOIA;
- “related person”, in relation to a taxpayer, means a person who is either:
 - (a) connected with the taxpayer; or
 - (b) an employee, officer or agent of the taxpayer or of a person connected with the taxpayer
- “short-term hire business” means a business consisting of the making available of cars where:
 - (a) the car is normally made available to the same person for less than 30 consecutive days; and
 - (b) it is normally made available to the same person for less than 90 days in any 12 month period.

4.54.5 Subsection (5) provides that where condition A or B is met, but only for part of a chargeable period, the taxpayer must apportion the expenses between the parts of that period where the conditions are and are not met according to the respective lengths of those parts of the period for the purposes of calculating any rental restriction under section 56 of CTA.

4.55 Paragraph 45 amends subsection 191(1) of CTA (other rules about what counts as post-cessation receipts) by omitting the words “or motorcycle” because motorcycle hire costs will not be subject to the restriction in section 56.

4.56 Paragraph 46 amends the entry in the Table in subsection 210(2) of CTA (profits of a property business: application of trading income rules), under the heading “In Chapter 4 (rules restricting deductions)” to reflect the new legislation.

4.57 Paragraph 47 amends subsection 214(1) (b) (i) of CTA (relationship between rules prohibiting and allowing deductions) by deleting the words “or motor cycle” from the reference to section 56.

4.58 Paragraph 48 amends subsection 283(2) of CTA (other rules about what counts as post-cessation receipts), by deleting the words “or motorcycle” from the reference to section 56(4).

4.59 Paragraph 49 amends subsection 865 (3) (a) of CTA (debits for expenditure not generally deductible for tax purposes) by deleting the words “or motorcycle” from the reference to section 57.

4.60 Paragraph 50 amends subsection 1231(3) of CTA (absence of accounts) by deleting the words “or motorcycle”.

4.61 Paragraph 51 makes amendments to section 1251 of CTA. This section currently applies to hired cars that cost over £12,000 when new and restricts, by means of a calculation using a given formula, the amount of the car rental costs a user can claim as a deduction from profits for the purposes of corporation tax. This regime is to be replaced with a system based on the CO₂ emissions of cars, which applies a 15% disallowance to rental costs of hired cars that emit more than 160 grams of CO₂ per km driven.

4.61.1 Sub-paragraph (1) explains that this paragraph makes various amendments to section 1251 CTA (car or motor cycle hire: companies with investment business).

4.61.2 Sub-paragraph (2) removes “motorcycles”, from subsection 1251(1), as motorcycles are not subject to the new rules, and provides a new definition of those cars which are not subject to the new rules. These are:

- (a) a car that is first registered before 1 March 2001;

- (b) a car that has low CO₂ emissions;
- (c) a car that is electrically propelled; or
- (d) a qualifying hire car.

4.61.3 Sub-paragraph (3) amends subsection 1251(2) of CTA by deleting the existing formula used to calculate the restriction that is applied to hired cars that cost more than £12,000 when new, and replacing it with a flat rate 15 per cent reduction, that will apply to the rental costs of cars that emit more than 160 grams of CO₂ per kilometre driven.

4.61.4 Sub-paragraph (4) amends subsection 1251(4)(b) of CTA by deleting the words “the fraction set out in subsection (2) above” and replacing them with “15%”, to reflect the new 15 per cent flat rate reduction.

4.61.5 Sub-paragraph (5) deletes “motorcycles” from subsections 1252(5) (a), (b) and (c) CTA references to which are no longer necessary.

4.61.6 Sub-paragraph (6) deletes subsection 1251(6) of CTA which gives the Treasury an Order making power to amend the calculation at subsection 48(3). As the calculation has been replaced with a flat rate reduction it is no longer required.

4.61.7 Sub-paragraph (7) amends subsection 1251(7) of CTA by deleting “or motorcycle” from the reference to section 56. It also substitutes “58A (short term hire and hiring to other business)” for “58 (hiring cars with low CO₂ emissions before 1 April 2013)” because section 58 is omitted.

4.61.8 Sub-paragraph (8) deletes “or motorcycle” from the heading of section 1251 of CTA as it is no longer required.

4.62 Paragraph 52 amends Schedule 2 to CTA (transitionals and savings), by deleting paragraphs 16 and 17 and the heading before them.

4.63 Paragraph 53 provides that ICTA is amended in accordance with paragraphs 54 and 55.

4.64 Paragraph 54 amends section 578A of ICTA, which provides for a restriction in the amount of car hire expenses that can be deducted from profits, where the car cost more than £12,000. The effect of the amendments is that the restriction will no longer depend on the cost of the car but on its CO₂ emissions.

4.64.1 Sub-paragraph (1) amends section 578A of ICTA (rules restricting deductions: car of motor cycle hire) as follows.

4.64.2 Sub-paragraph (2) changes the definition of a car to which this section applies. It deletes the existing sub-paragraphs 578A (2) (a) and (b) and instead states that this section applies to the hiring of a car which is not:

- a car that is first registered before 1 March 2001;
- a car that has low CO₂ emissions (as defined in section 104AA of CAA);
- a car that is electrically propelled (as defined in section 268B of that Act); or
- a qualifying hire car.

4.64.3 Sub-paragraph (3) deletes the existing subsections 578A (2A) and (2B) as these subsections are now redundant.

4.64.4 Sub-paragraph (4) inserts a new subsection 578(2C), which provides that this section (578A) does not apply to the hiring of a car where either condition A or condition B in section 58A of CTA (short term hire and hiring to other businesses) is met. It also deems that section

58A (5) of CTA applies for the purposes of this section. Paragraph 4.52 above provides detail about section 58A of CTA.

4.64.5 Sub-paragraph(5) amends subsection 578A(3) by deleting the existing formula used to calculate the restriction that is applied to hired cars that cost more than £12,000 when new and replacing it with a flat rate 15 per cent reduction, that will apply to cars that emit more than 160 grams of CO₂ per kilometre driven.

4.64.6 Sub-paragraph(6) amends subsection 578A(4) by deleting the words “multiplying it by the fraction set out in subsection (3) above” and replacing them with “15%”, to reflect the new 15 per cent flat rate reduction.

4.65 Paragraph 55 amends section 578B of ICTA (expenditure on car or motorcycle hire: supplementary). This section provides definitions and explanations of terms in section 578A ICTA and these have been changed as a result of the amendments to section 578A.

4.65.1 Sub-paragraph (1) explains that section 578B of ICTA (expenditure on car or motorcycle hire: supplementary) is amended.

4.65.2 Sub-paragraph (2) (a) omits the word “one” from section 578B subsection (1) which is no longer necessary.

4.65.3 Sub-paragraph (2)(b) inserts a new sub-paragraph 578B(1)(za) before subsection 578(1)(a) making it clear that a motor cycle, as defined by section 185(1) of the Road Traffic Act 1988, is excluded from the 15 per cent reduction in allowable deductions for car hire expenses.

4.65.4 Sub-paragraph (2) (c) inserts “a vehicle” at the beginnings of subsections 578B(1)(a) and (b) for clarification.

4.65.5 Sub-paragraph (2) (d) omits the words “references to a car accordingly include a motor cycle” after section 578(1) (b) as these are no longer needed.

4.65.6 Sub-paragraphs (3) to (5) make various amendments as a consequence of these changes.

Commencement

4.66 Paragraphs 56 and 57 set out the dates from which the new legislation takes effect by reference to relevant dates.

4.67 Paragraph 56 explains that for the purposes of this Part of this Schedule:

- (a) the first relevant date is:
 - (i) for corporation tax purposes, 1 April 2009; and
 - (ii) for income tax purposes, 6 April 2009; and
- (b) the second relevant date is:
 - (i) for corporation tax purposes, 1 April 2010; and
 - (ii) for income tax purposes, 6 April 2010;.

4.68 Paragraph 58 explains when the new rules for the restriction of allowable car hire expenses begin.

4.68.1 Sub-paragraph (1) provides that the new rules in this Part of this Schedule apply to deductions for expenditure incurred on the hiring of a car or motor cycle under an agreement where the hire period begins on or after 1 or 6 April 2009 (although there is an exception to this in paragraph 58).

4.68.2 Sub-paragraph (2) provides that for the purposes of this paragraph and paragraph 58, the hire period begins on the first day on which the car or motor cycle is required to be made available to the lessee under the agreement.

Election for new regime not to apply in certain cases

4.69 Paragraph 58 provides that an election may be made in certain circumstances so that the amendments made by this section (the new rules) **do not** have effect.

4.69.1 Sub-paragraph (1) provides that an election may be made in respect of expenditure incurred by a person on the hiring of a car or motor cycle under an agreement if:

- (a) the agreement is entered into on or before 8 December 2008; and
- (b) the hire period begins before the second relevant date.

4.69.2 Sub-paragraph (2) provides that a person may elect that the amendments made by this Part of this Schedule **do not** have effect in relation to deductions for that expenditure.

4.69.3 Sub-paragraph (3) provides that notice of an election under this paragraph must be given to an officer of HMRC by the following date:

- where the lessee is within the charge to income tax, on or before the time limit for amending the tax return for the year in which the relevant chargeable period ends;
- where the lessee is within the charge to corporation tax, two years after the end of the relevant chargeable period.

4.69.4 Sub-paragraph (4) explains what the relevant chargeable period is. It is the first chargeable period in which any expenditure was incurred on the hiring of the car by the lessee under the agreement. Chargeable period takes its meaning from section 6 of CAA and so means:

- a period of account for income tax purposes;
- an accounting period for a company.

4.69.5 Sub-paragraph (5) provides that once an election is made it cannot be revoked.

4.69.6 Sub-paragraph (6) ensures that the necessary assessments can be made and amended to reflect the election.

4.69.7 Sub-paragraph (7) provides that for the purpose of this paragraph, an agreement is entered into on the first date on which the following conditions are met:

- there is a written contract for the use of the car or motor cycle by the person;
- the contract is unconditional or, if it is conditional, the conditions have been met; and
- no terms remain to be agreed.

4.70 Paragraph 59 provides that the repeal of section 82 of CAA (meaning of “qualifying hire car”) does not affect the continued operation of the following provisions:

- section 587B (2) (b) of ICTA;
- section 49(2) (c) of ITTOIA;
- section 57(2) (c) of CTA.

1 Tax relief for business expenditure on cars and motor cycles

Schedule 1 contains provision about tax relief for business expenditure on cars and motor cycles.

SCHEDULES

SCHEDULE 1

Section 1

TAX RELIEF FOR BUSINESS EXPENDITURE ON CARS AND MOTOR CYCLES

PART 1

CAPITAL ALLOWANCES

Plant and machinery allowances for cars and motor cycles

- 1 Part 2 of CAA 2001 (plant and machinery allowances) is amended as follows.
- 2 In section 38B (general exclusions from AIA qualifying expenditure), in general exclusion 2, for “81” substitute “268A”.
- 3 Omit sections 74 to 79 (cars above the cost threshold).
- 4 Omit sections 81 (extended meaning of “car”) and 82 (qualifying hire cars).
- 5 (1) Section 104A (special rate expenditure) is amended as follows.
 - (2) In subsection (1) –
 - (a) in paragraph (a), after “the” insert “first”,
 - (b) omit “and” at the end of paragraph (c), and
 - (c) at the end insert “, and
 - (e) expenditure incurred on or after the second relevant date on the provision of a car that is not a main rate car.”
 - (3) In subsection (2), after “The” insert “first”.
 - (4) After that subsection insert –
 - “(3) The second relevant date is –
 - (a) for corporation tax purposes, 1 April 2009, and
 - (b) for income tax purposes, 6 April 2009.
 - (4) In this section –
 - “car” has the meaning given in section 268A;
 - “main rate car” has the meaning given in section 104AA.”
- 6 After that section insert –

“104AA Meaning of “main rate car”

 - (1) “Main rate car” means –
 - (a) a car that is first registered before 1 March 2001,
 - (b) a car that has low CO₂ emissions, or

- (c) a car that is electrically-propelled.
- (2) For the purposes of this section a car has low CO₂ emissions if it meets conditions A and B.
- (3) Condition A is that, when the car is first registered, it is so registered on the basis of a qualifying emissions certificate.
- (4) Condition B is that the applicable CO₂ emissions figure in relation to the car does not exceed 160 grams per kilometre driven.
- (5) The Treasury may by order amend the amount from time to time specified in subsection (4).
- (6) An order under subsection (5) may contain transitional provision and savings.
- (7) In this section—
 - “applicable CO₂ emissions figure” and “qualifying emissions certificate” have the meanings given in section 268C;
 - “car” has the meaning given in section 268A;
 - “electrically-propelled” has the meaning given in section 268B.”

7 After section 268 insert—

“Cars etc

268A Meaning of “car” and “motor cycle”

- (1) In this Part “car” means a mechanically propelled road vehicle other than—
 - (a) a motor cycle,
 - (b) a vehicle of a construction primarily suited for the conveyance of goods or burden of any description, or
 - (c) a vehicle of a type not commonly used as a private vehicle and unsuitable for such use.
- (2) In this Part “motor cycle” has the meaning given by section 185(1) of the Road Traffic Act 1988.

268B Electrically-propelled vehicles

For the purposes of this Part a vehicle is electrically-propelled only if—

- (a) it is propelled solely by electrical power, and
- (b) that power is derived from—
 - (i) a source external to the vehicle, or
 - (ii) an electrical storage battery which is not connected to any source of power when the vehicle is in motion.

268C Terms relating to emissions

- (1) In this Part “qualifying emissions certificate”, in relation to a vehicle, means an EC certificate of conformity, or a UK approval certificate, that specifies—
 - (a) in the case of a vehicle other than a bi-fuel vehicle, a CO₂ emissions figure in terms of grams per kilometre driven, or

- (b) in the case of a bi-fuel vehicle, separate CO₂ emissions figures in terms of grams per kilometre driven for different fuels.
- (2) For the purposes of this Part, in relation to a vehicle other than a bi-fuel vehicle, the applicable CO₂ emissions figure is –
- (a) where the qualifying emissions certificate specifies only one CO₂ emissions figure, that figure, and
- (b) where the certificate specifies more than one CO₂ emissions figure, the figure specified as the CO₂ emissions (combined) figure.
- (3) For the purposes of this Part, in relation to a bi-fuel vehicle, the applicable CO₂ emissions figure is –
- (a) where the qualifying emissions certificate specifies more than one CO₂ emissions figure in relation to each fuel, the lowest CO₂ emissions (combined) figure specified, and
- (b) in any other case, the lowest CO₂ figure specified by the certificate.
- (4) In this section –
- “bi-fuel”, in relation to a vehicle, means capable of being propelled by –
- (a) petrol and road fuel gas, or
- (b) diesel and road fuel gas;
- “diesel” means any diesel fuel within the definition in Article 2 of Directive 98/70/EC of the European Parliament and of the Council;
- “EC certificate of conformity” means a certificate of conformity issued by a manufacturer under any provision of the law of a member State implementing Article 6 of Council Directive 70/156/EEC, as amended;
- “petrol” has the meaning given by Article 2 of Directive 98/70/EC of the European Parliament and of the Council;
- “road fuel gas” has the same meaning as in section 171(1) of ITEPA 2003;
- “UK approval certificate” means a certificate issued under –
- (a) section 58(1) or (4) of the Road Traffic Act 1988, or
- (b) Article 31A(4) or (5) of the Road Traffic (Northern Ireland) Order 1981.”

Consequential amendments of CAA 2001

- 8 CAA 2001 is amended as follows.
- 9 In section 33(7) (personal security), for “81” substitute “268A”.
- 10 (1) Section 45D (expenditure on cars with low carbon dioxide emissions) is amended as follows.
- (2) In subsection (1), for paragraph (c) substitute –
- “(c) the car –
- (i) is electrically-propelled, or
- (ii) has low CO₂ emissions, and”.

- (3) In subsection (2), for “a car with low CO₂ emissions is a car which” substitute “a car has low CO₂ emissions if it”.
- (4) In subsection (3), for the words from “an EC certificate” to the end substitute “a qualifying emissions certificate.”
- (5) In subsection (4), for “in the case of” substitute “in relation to”.
- (6) Omit subsections (5) and (6).
- (7) In subsection (8) –
 - (a) after “car” insert “is to a car within the meaning of section 268A, except that it”, and
 - (b) omit paragraph (b) (and the “but” before it).
- (8) Omit subsections (9) and (10).
- (9) After subsection (10) insert –

“(11) In this section –
“applicable CO₂ emissions figure” and “qualifying emissions certificate” have the meanings given in section 268C;
“electrically-propelled” has the meaning given in section 268B.”
- 11 In section 46(2) (general exclusions), in general exclusion 2, for “car (as defined by section 81)” substitute “car or motor cycle (as defined by section 268A)”.
- 12 In section 54(3) (single asset pools), omit “section 74 (car above the cost threshold)”.
- 13 In section 65(3) (the final chargeable period), for “sections 77(1) and” substitute “section”.
- 14 In section 66 (list of provisions about disposal values), omit the entry in the list relating to section 79.
- 15 (1) In section 84 (cases in which short-life asset treatment is ruled out), the Table is amended as follows.
 - (2) For item 3 substitute –

“3.	The plant or machinery is a car or motor cycle (as defined by section 268A).	The plant or machinery is a car which is a hire car for a disabled person (as defined by section 268D).”
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 - (3) In item 4, in the second column, insert “The expenditure is incurred on the provision of a car which is a hire car for a disabled person (as defined by section 268D)”.
 - (4) In item 5, in the second column, for “within section 82(4) (cars hired out to persons receiving disability allowances etc)” substitute “a hire car for a disabled person (as defined by section 268D)”.
- 16 (1) Section 86 (short-life assets) is amended as follows.
 - (2) In subsection (2)(b), for “main pool” substitute “appropriate pool”.

(3) After subsection (4) insert –

- “(5) In subsection (2)(b) “appropriate pool” means –
- (a) in the case of expenditure incurred on the provision of a car that is not a main rate car (as defined by section 104AA), the special rate pool, and
 - (b) in any other case, the main pool.”

17 In section 96 (expenditure on cars excluded from being long-life asset expenditure), for “car (as defined by section 81)” substitute “car or motor cycle (as defined by section 268A)”.

18 After section 268C (inserted by this Part of this Schedule) insert –

“268D Hire cars for disabled persons

- (1) For the purposes of this Part a car is a hire car for a disabled person if it is provided wholly or mainly for hire to, or the carriage of, disabled persons in the ordinary course of a trade.
- (2) “Disabled person” means a person in receipt of –
 - (a) a disability living allowance under –
 - (i) the Social Security Contributions and Benefits Act 1992, or
 - (ii) the Social Security Contributions and Benefits (Northern Ireland) Act 1992,
 because of entitlement to the mobility component,
 - (b) a mobility supplement under a scheme made under the Personal Injuries (Emergency Provisions) Act 1939,
 - (c) a mobility supplement under an Order in Council made under section 12 of the Social Security (Miscellaneous Provisions) Act 1977, or
 - (d) a payment that appears to the Treasury to be similar to those mentioned in paragraphs (a) to (c) and that is specified by order made by the Treasury.”

19 (1) Part 2 of Schedule 1 (defined expressions) is amended as follows.

(2) In the entry relating to “car (in Part 2)”, for “section 81” substitute “section 268A”.

(3) At the appropriate place insert –

“applicable CO ₂ emissions figure (in Part 2)	section 268C”
“electrically-propelled (in Part 2)	section 268B”
“hire car for a disabled person (in Part 2)	section 268D”
“motor cycle (in Part 2)	section 268A”
“qualifying emissions certificate (in Part 2)	section 268C”.

- 20 In Schedule 3 (transitionals and savings), omit paragraph 19 (cars above the cost threshold) and the headings immediately before it.

Commencement

- 21 For the purposes of this Part of this Schedule –
- (a) the first relevant date is –
 - (i) for corporation tax purposes, 1 April 2009, and
 - (ii) for income tax purposes, 6 April 2009,
 - (b) the second relevant date is –
 - (i) for corporation tax purposes, 1 August 2009, and
 - (ii) for income tax purposes, 6 August 2009, and
 - (c) the third relevant date is –
 - (i) for corporation tax purposes, 1 April 2014, and
 - (ii) for income tax purposes, 6 April 2014.
- 22 (1) The amendments made by this Part of this Schedule have effect in relation to –
- (a) expenditure incurred on or after the first relevant date, and
 - (b) expenditure incurred before that date to which sub-paragraph (2) applies.
- (2) This sub-paragraph applies to expenditure if –
- (a) it is incurred under an agreement for the provision of a car entered into after 8 December 2008, and
 - (b) under that agreement the car is not required to be made available before the second relevant date.
- (3) For the purpose of sub-paragraph (2), an agreement is entered into on the date on which the following conditions are met –
- (a) there is a contract in writing for the provision of the car,
 - (b) the contract is unconditional or, if it is conditional, the conditions have been met, and
 - (c) no terms remain to be agreed.
- 23 The repeal of sections 74 to 79 of CAA 2001 and the amendments made by paragraphs 12 to 14 have effect in relation to expenditure –
- (a) incurred before the first relevant date, and
 - (b) to which paragraph 22(2) does not apply,
- but only for chargeable periods beginning on or after the third relevant date.

Transitionals

- 24 (1) This paragraph applies where expenditure incurred by a person on the provision of a car or motor cycle includes both –
- (a) expenditure described in paragraph 22(1)(a) or (b) (“new expenditure”), and
 - (b) other expenditure (“old expenditure”).
- (2) The new expenditure and the old expenditure are to be treated as if they were incurred on the provision of separate (but identical) cars or motor cycles.

- (3) Any amount required to be brought into account in connection with a disposal event in respect of the car or motor cycle mentioned in subparagraph (1) is to be apportioned in a just and reasonable manner.
- 25 (1) This paragraph applies where –
- (a) expenditure described in paragraph 23 is required to be allocated to a single asset pool by section 74 of CAA 2001,
 - (b) there is unrelieved expenditure in that pool at the end of a transitional chargeable period, and
 - (c) the unrelieved expenditure is not required to be allocated to a single asset pool by any other provision of Part 2 of that Act.
- (2) The unrelieved expenditure must be carried forward to the main pool.
- (3) A “transitional chargeable period” is one that begins before the third relevant date and ends on or after that date.
- 26 An order made under section 82(4)(d) of CAA 2001 (qualifying hire cars for disabled persons) before the day on which this Act is passed (and not revoked before that day) has effect as if it had also been made under section 268D(2)(d) of that Act (hire cars for disabled persons) (inserted by this Part of this Schedule).

Interpretation

- 27 In this Part of this Schedule –
- (a) “car” and “motor cycle” have the meaning given in section 268A of CAA 2001 (inserted by paragraph 7), and
 - (b) other expressions used in this Part of this Schedule and in Part 2 of CAA 2001 have the same meaning here as in that Part of that Act.

PART 2

RESTRICTIONS ON DEDUCTIONS FOR HIRE EXPENSES

Income tax

- 28 ITTOIA 2005 is amended as follows.
- 29 In section 31(1)(b) (relationship between rules prohibiting and allowing deductions), omit “or motor cycle”.
- 30 (1) Section 48 (rules restricting deductions from profits: car or motor cycle hire) is amended as follows.
- (2) In subsection (1), for “or motorcycle” (in the first place) to the end substitute “which is not –
- (a) a car that is first registered before 1 March 2001,
 - (b) a car that has low CO₂ emissions,
 - (c) a car that is electrically propelled, or
 - (d) a qualifying hire car.”
- (3) In subsection (2), for the words from “multiplying” to the end substitute “15%”.
- (4) In subsection (4), for “multiplying it by the fraction in subsection (2)” substitute “15%”.

- (5) In subsection (4A)(a), (b) and (c), omit “or motor cycle”.
 - (6) Omit subsection (5).
 - (7) In the heading, omit “**or motor cycle**”.
- 31 (1) Section 49 (car or motor cycle hire: supplementary) is amended as follows.
- (2) In subsection (1) –
 - (a) omit “or motor cycle”,
 - (b) omit “one”,
 - (c) before paragraph (a) insert –
 - “(za) a motor cycle (within the meaning of section 185(1) of the Road Traffic Act 1988),” and
 - (d) in paragraphs (a) and (b), at the beginning insert “a vehicle”.
 - (3) After that subsection insert –

“(1A) In section 48 –
“a car that has low CO₂ emissions” has the same meaning as in section 104AA of CAA 2001 (special rate expenditure: main rate car);
“electrically propelled” has the meaning given in section 268B of that Act.”
 - (4) In subsection (2) –
 - (a) omit “or motor cycle” (in each place),
 - (b) at the end of paragraph (a) insert “or”, and
 - (c) omit paragraph (c) (and the “or” before it).
 - (5) In subsection (6), omit “and section 48”.
 - (6) In the heading, omit “**or motor cycle**”.
- 32 Omit section 50 (hiring cars with low carbon dioxide emissions).
- 33 After that section insert –

“50A Short-term hire and hiring to other businesses

- (1) Section 48 does not apply to expenses incurred by a person (“the taxpayer”) on the hiring of a car if condition A or B is met.
- (2) Condition A is that the car is made available to the taxpayer by another person in the course of a short-term hire business carried on by that person.
- (3) Condition B is that –
 - (a) the car is made available by the taxpayer to another person (“the customer”) who is not a related person,
 - (b) it is made available under a legally binding arrangement other than in the course of a short-term hire business for the purposes of a trade, profession, vocation, investment business or property business carried on by the customer, and
 - (c) it is not subsequently made available (whether by the customer or otherwise) to a person who is a related person in relation to the taxpayer.

- (4) In this section –
- “investment business” has the same meaning as in Part 16 of CTA 2009;
 - “property business” includes business that is property business for the purposes of CTA 2009 (see section 204 of that Act);
 - “related person”, in relation to a taxpayer, means a person who is –
 - (a) connected with the taxpayer, or
 - (b) an employee, officer or agent of the taxpayer or of a person connected with the taxpayer;
 - “short-term hire business” means a business consisting of the making available of cars where –
 - (a) the number of consecutive days for which a car is made available to the same person will normally be less than 30, and
 - (b) the total number of days for which it is made available to the same person in any period of 12 months will normally be less than 90.
- (5) If condition A or B is met for only part of a chargeable period, the expenses incurred by the taxpayer on the hiring of the car that are brought into account for that period must be apportioned between the parts of that period when those conditions are and are not met according to the respective lengths of those parts of the period.”

- 34 In section 247(1) (other rules about what counts as post-cessation receipts), omit “or motorcycle”.
- 35 In section 272(2) (profits of a property business: application of trading income rules), in the entry in the Table relating to sections 48 to 50 –
- (a) for “50” substitute “50A”, and
 - (b) omit “or motor cycle”.
- 36 In section 274(1)(b) (relationship between rules prohibiting and allowing deductions), omit “or motor cycle”.
- 37 In section 354(2) (other rules about what counts as post-cessation receipts), omit “or motorcycle”.
- 38 In Schedule 2 (transitionals and savings), omit paragraphs 16 and 17 (and the heading before them).

Corporation tax

- 39 CTA 2009 is amended in accordance with paragraphs 40 to 52.
- 40 In section 51(1)(b)(i) (relationship between rules prohibiting and allowing deductions), omit “or motor cycle”.
- 41 (1) Section 56 (rules restricting deductions from profits: car or motor cycle hire) is amended as follows.
- (2) In subsection (1), for “or motor cycle” (in the first place) to the end substitute “which is not –
- (a) a car that is first registered before 1 March 2001,
 - (b) a car that has low CO₂ emissions,

- (c) a car that is electrically propelled, or
 - (d) a qualifying hire car.”
 - (3) In subsection (2), for the words from “multiplying” to the end substitute “15%”.
 - (4) In subsection (4), for “multiplying it by the fraction in subsection (2)” substitute “15%”.
 - (5) In subsection (5)(a), (b) and (c), omit “or motor cycle”.
 - (6) Omit subsection (6).
 - (7) In the heading, omit “**or motor cycle**”.
- 42 (1) Section 57 (car or motor cycle hire: supplementary) is amended as follows.
- (2) In subsection (1) –
 - (a) omit “or motor cycle”,
 - (b) omit “one”,
 - (c) before paragraph (a) insert –
 - “(za) a motor cycle (within the meaning of section 185(1) of the Road Traffic Act 1988),” and
 - (d) in paragraphs (a) and (b), at the beginning insert “a vehicle”.
 - (3) After that subsection insert –
 - “(1A) In section 56 –
 - “a car that has low CO₂ emissions” has the same meaning as in section 104AA of CAA 2001 (special rate expenditure: main rate car);
 - “electrically propelled” has the meaning given in section 268B of that Act.”
 - (4) In subsection (2) –
 - (a) omit “or motor cycle” (in each place),
 - (b) at the end of paragraph (a) insert “or”, and
 - (c) omit paragraph (c) (and the “or” before it).
 - (5) In subsection (6), omit “and section 56”.
 - (6) In the heading, omit “**or motor cycle**”.
- 43 Omit section 58 (hiring cars with low CO₂ emissions before 1 April 2013).
- 44 After section 58 insert –
- “58A Short-term hire and hiring to other businesses**
- (1) Section 56 does not apply to expenses incurred by a person (“the taxpayer”) on the hiring of a car if condition A or B is met.
 - (2) Condition A is that the car is made available to the taxpayer by another person in the course of a short-term hire business carried on by that person.
 - (3) Condition B is that –
 - (a) the car is made available by the taxpayer to another person (“the customer”) who is not a related person,

-
- (b) it is made available under a legally binding arrangement other than in the course of a short-term hire business for the purposes of a trade, profession, vocation, investment business or property business carried on by the customer, and
 - (c) it is not subsequently made available (whether by the customer or otherwise) to a person who is a related person in relation to the taxpayer.
- (4) In this section –
- “investment business” has the same meaning as in Part 16;
 - “property business” includes business that is property business for the purposes of ITTOIA 2005 (see section 263(6) of that Act);
 - “related person”, in relation to a taxpayer, means a person who is –
 - (a) connected with the taxpayer, or
 - (b) an employee, officer or agent of the taxpayer or of a person connected with the taxpayer;
 - “short-term hire business” means a business consisting of the making available of cars where –
 - (a) the number of consecutive days for which a car is made available to the same person will normally be less than 30, and
 - (b) the total number of days for which it is made available to the same person in any period of 12 months will normally be less than 90.
- (5) If condition A or B is met for only part of a chargeable period, the expenses incurred by the taxpayer on the hiring of the car that are brought into account for that period must be apportioned between the parts of that period when those conditions are and are not met according to the respective lengths of those parts of the period.”
- 45 In section 191(1) (other rules about what counts as post-cessation receipts), omit “or motor cycle”.
- 46 In section 210(2) (profits of a property business: application of trading income rules), in the entry in the Table relating to sections 56 to 58 –
- (a) for “58” substitute “58A”, and
 - (b) omit “or motor cycle”.
- 47 In section 214(1)(b)(i) (relationship between rules prohibiting and allowing deductions), omit “or motor cycle”.
- 48 In section 283(2) (other rules about what counts as post-cessation receipts), omit “or motorcycle”.
- 49 In section 865(3)(a) (debits for expenditure not generally deductible for tax purposes), omit “or motorcycle”.
- 50 In section 1231(3) (absence of accounts), omit “or motorcycle”.
- 51 (1) Section 1251 (car or motor cycle hire: companies with investment business) is amended as follows.

- (2) In subsection (1), for “or motor cycle” (in the first place) to the end substitute “which is not –
 - (a) a car that is first registered before 1 March 2001
 - (b) a car that has low CO₂ emissions,
 - (c) a car that is electrically propelled, or
 - (d) a qualifying hire car.”
 - (3) In subsection (2), for the words from “multiplying” to the end substitute “15%”.
 - (4) In subsection (4)(b), for “multiply that amount by the fraction set out in subsection (2) above” substitute “reduce that amount by 15%”.
 - (5) In subsection (5)(a), (b) and (c), omit “or motor cycle”.
 - (6) Omit subsection (6).
 - (7) In subsection (7) –
 - (a) omit “or motor cycle”, and
 - (b) for “58 (hiring cars with low CO₂ emissions before 1 April 2013)” substitute “58A (short-term hire and hiring to other businesses)”.
 - (8) In the heading, omit “**or motor cycle**”.
- 52 In Schedule 2 (transitionals and savings), omit paragraphs 16 and 17 (and the heading before them).
- 53 ICTA is amended in accordance with paragraphs 54 and 55.
- 54 (1) Section 578A (rules restricting deductions: car or motor cycle hire) is amended as follows.
- (2) In subsection (2), for paragraphs (a) and (b) substitute “which is not –
 - (a) a car that is first registered before 1 March 2001,
 - (b) a car that has low CO₂ emissions (as defined in section 104AA of the Capital Allowances Act),
 - (c) a car that is electrically propelled (as defined in section 268B of that Act), or
 - (d) a qualifying hire car.”
 - (3) Omit subsections (2A) and (2B).
 - (4) After subsection (2B) insert –

“(2C) This section does not apply to the hiring of a car where condition A or condition B in section 58A of the Corporation Tax Act 2009 (short-term hire and hiring to other businesses) is met (and section 58A(5) of that Act applies for the purposes of this section).”
 - (5) In subsection (3), for the words from “multiplying” to the end substitute “15%”.
 - (6) In subsection (4), for “multiplying it by the fraction in subsection (3) above” substitute “15%”.
- 55 (1) Section 578B (expenditure on car or motor cycle hire: supplementary) is amended as follows.
- (2) In subsection (1) –

- (a) omit “one”,
 - (b) before paragraph (a) insert—
 - “(za) a motor cycle (within the meaning of section 185(1) of the Road Traffic Act 1988),”
 - (c) in paragraphs (a) and (b), at the beginning insert “a vehicle”, and
 - (d) omit the words following paragraph (b).
- (3) In subsection (2), omit paragraph (b) (and the “or” before it).
- (4) In subsection (3), omit “section 578A and”.
- (5) Omit subsection (4).

Commencement

- 56 For the purposes of this Part of this Schedule—
- (a) the first relevant date is—
 - (i) for corporation tax purposes, 1 April 2009, and
 - (ii) for income tax purposes, 6 April 2009, and
 - (b) the second relevant date is—
 - (i) for corporation tax purposes, 1 April 2010, and
 - (ii) for income tax purposes, 6 April 2010, and
- 57 (1) The amendments made by this Part of this Schedule have effect in relation to deductions for expenditure incurred on the hiring of a car or motor cycle under an agreement under which the hire period begins on or after the first relevant date (but see paragraph 58).
- (2) For the purposes of this paragraph and paragraph 58, the hire period, in relation to an agreement, begins on the first day on which the car or motor cycle is required to be made available for use under the agreement.

Election for new regime not to apply in certain cases

- 58 (1) This paragraph applies where—
- (a) a person incurs expenditure on the hiring of a car or motor cycle under an agreement entered into on or before 8 December 2008, and
 - (b) the hire period begins before the second relevant date.
- (2) If the person makes an election under this paragraph, none of the amendments made by this Part of this Schedule has effect in relation to any deduction for expenditure incurred by the person on the hiring of the car or motor cycle under the agreement.
- (3) The election must be made by notice given to an officer of Revenue and Customs—
- (a) for income tax purposes, on or before the normal time limit for amending a tax return for the tax year in which the relevant chargeable period ends, and
 - (b) for corporation tax purposes, no later than 2 years after the end of the relevant chargeable period.
- (4) “The relevant chargeable period” means the first chargeable period (as defined in section 6 of CAA 2001) in which any expenditure by the person on the provision of the car or motor cycle under the agreement was incurred.

- (5) The election is irrevocable.
- (6) All such assessments and adjustments of assessments are to be made as are necessary to give effect to the election.
- (7) For the purpose of this paragraph, an agreement is entered into on the first date on which the following conditions are met –
 - (a) there is a contract in writing for the use of the car or motor cycle by the person,
 - (b) the contract is unconditional or, if it is conditional, the conditions have been met, and
 - (c) no terms remain to be agreed.

Saving

- 59 The repeal of section 82 of CAA 2001 (meaning of “qualifying hire car”) by Part 1 of this Schedule does not affect the continued operation of the following provisions –
 - (a) section 587B(2)(b) of ICTA,
 - (b) section 49(2)(c) of ITTOIA 2005, and
 - (c) section 57(2)(c) of CTA 2009.

A

Consultation Stage Impact Assessment

A.1 See overleaf.

Summary: Intervention & Options

Department /Agency: HM Treasury	Title: Draft legislation for modernising tax relief for business expenditure on cars	
Stage: Consultation	Version: Final	Date: 24 November 2008
Related Publications: Modernising tax relief for business expenditure on cars: A consultation document www.hm-treasury.gov.uk/media/3/0/bud06_cars_241.pdf		

Available to view or download at:

<http://www.hmrc.gov.uk/ria/index.htm>

Contact for enquiries: Roze Ahmad

Telephone: 0207 270 5000

What is the problem under consideration? Why is government intervention necessary?

Businesses currently face restrictions on the extent to which they are allowed to claim capital allowances for expenditure on buying cars costing more than £12,000. There is an associated disallowance on the cost of leasing cars costing more than £12,000 that can be off set against profits when calculating tax liability. These rules have been identified by business as an area that would benefit from reform. Following a consultation in 2006 and an update in 2007 the Government announced at Budget 2008 its intention to reform the existing rules by moving to a CO2 emissions based regime.

What are the policy objectives and the intended effects?

The aim of the reform is to modernise the existing rules that relate to tax relief for business expenditure on cars in a way that reduces compliance costs while ensuring consistency with the Government's wider objectives on the environment and public finances. This measure is one of a wider package of measures that have been introduced to provide a framework of tax incentives to promote the switch to cars with lower carbon dioxide emissions.

What policy options have been considered? Please justify any preferred option.

The following options have been considered and consulted since 2006:

1. Do nothing,
2. Replace the existing rules with new legislation based on CO2 emission,
3. Straight abolition, or
4. Place expenditure on cars in a new capital allowance pool, with a lower writing-down allowance than that of the general plant and machinery pool.

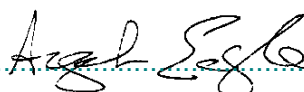
Option 2 is being introduced because it is the only option that meets the objectives for reducing compliance costs in a way that is consistent with wider policy objectives.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The Government will review the compliance cost impact of the measure after the end of the transitional period.

Ministerial Sign-off For consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:



.....Date: 3rd December 08

Summary: Analysis & Evidence

Policy Option: 1

Description: Do nothing- no change to current policy

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' In a do nothing scenario, there are no additional costs or benefits to business in the short term, though given price inflation, in the longer term, an increasing number of cars would be caught by the rules.	
	One-off (Transition)	Yrs		
	£ Nil			
	Average Annual Cost (excluding one-off)			
	£ Nil		Total Cost (PV)	£ Nil
Other key non-monetised costs by 'main affected groups' Business in general would continue to face compliance burden.				

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups'	
	One-off	Yrs		
	£ Nil			
	Average Annual Benefit (excluding one-off)			
	£ Nil		Total Benefit (PV)	£ Nil
Other key non-monetised benefits by 'main affected groups'				

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years	Net Benefit Range (NPV) £ N/A	NET BENEFIT (NPV Best estimate) £ N/A	
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What is the geographic coverage of the policy/option?			UK		
On what date will the policy be implemented?			N/A		
Which organisation(s) will enforce the policy?			HMRC		
What is the total annual cost of enforcement for these organisations?			£ Nil		
Does enforcement comply with Hampton principles?			Yes/No		
Will implementation go beyond minimum EU requirements?			Yes/No		
What is the value of the proposed offsetting measure per year?			£ N/A		
What is the value of changes in greenhouse gas emissions?			£ N/A		
Will the proposal have a significant impact on competition?			No		
Annual cost (£-£) per organisation (excluding one-off)		Micro Nil	Small Nil	Medium Nil	Large Nil
Are any of these organisations exempt?		No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)				(Increase - Decrease)
Increase of	£ Nil	Decrease of	£ Nil	Net Impact
				£ Nil

Key: Annual costs and benefits: (Net) Present Value

Summary: Analysis & Evidence

Policy Option: 2	Description: Replace existing rules with new legislation based on CO2 emissions
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' The cost to business of complying with the new arrangements will, generally, be minimal. However, daily hire, certain taxis and cars leased to the disabled will become subject to the new capital allowance and lease rental restriction (LRR) regimes. The admin burden of this is estimated to be between £50k- £400K.										
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%; padding: 5px;">One-off (Transition)</td> <td style="width: 30%; text-align: center; padding: 5px;">Yrs</td> </tr> <tr> <td style="padding: 5px;">£ Negligible</td> <td></td> </tr> <tr> <td colspan="2" style="padding: 5px;">Average Annual Cost (excluding one-off)</td> </tr> <tr> <td style="padding: 5px;">£ Max £400k</td> <td></td> </tr> </table>			One-off (Transition)	Yrs	£ Negligible		Average Annual Cost (excluding one-off)		£ Max £400k		
	One-off (Transition)			Yrs								
	£ Negligible											
Average Annual Cost (excluding one-off)												
£ Max £400k												
Total Cost (PV)		£ N/A										
Other key non-monetised costs by 'main affected groups' All businesses affected by the measure will experience decreased cash flow as a result of full balancing adjustments no longer being generated on outstanding depreciation at the time of disposal of the car. Instead these outstanding balances will be fully relieved over time at 10% or 20% reducing balance.												

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups' Businesses operating cars (which are not subject to the private use adjustment) will benefit from no longer having to maintain single asset pools for cars costing over £12,000. Expenditure will be allocated to one of two general pools. Those businesses that lease / hire cars will benefit from a simplified flat rate LRR.										
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%; padding: 5px;">One-off</td> <td style="width: 30%; text-align: center; padding: 5px;">Yrs</td> </tr> <tr> <td style="padding: 5px;">£</td> <td></td> </tr> <tr> <td colspan="2" style="padding: 5px;">Average Annual Benefit (excluding one-off)</td> </tr> <tr> <td style="padding: 5px;">£ 8m</td> <td></td> </tr> </table>			One-off	Yrs	£		Average Annual Benefit (excluding one-off)		£ 8m		
	One-off			Yrs								
	£											
Average Annual Benefit (excluding one-off)												
£ 8m												
Total Benefit (PV)		£ N/A										
Other key non-monetised benefits by 'main affected groups' While it is difficult to measure, this option is designed to compliment measures aimed at encouraging the purchasing of cars with lower CO2 emissions benefitting the environment.												

Key Assumptions/Sensitivities/Risks This option assumes manufacturers will continue to make advances in technology to introduce fuel-efficient cars and businesses take a more positive attitude towards using low-emission cars. Estimated Exchequer yield of around £60m in 09/10 with a total impact of £500m over the next 5 years.

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?	UK								
On what date will the policy be implemented?	April 2009								
Which organisation(s) will enforce the policy?	HMRC								
What is the total annual cost of enforcement for these organisations?	£								
Does enforcement comply with Hampton principles?	Yes/No								
Will implementation go beyond minimum EU requirements?	N/A								
What is the value of the proposed offsetting measure per year?	£ N/A								
What is the value of changes in greenhouse gas emissions?	£ See Annex								
Will the proposal have a significant impact on competition?	No								
Annual cost (£-£) per organisation (excluding one-off)	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">Micro</td> <td style="width: 25%; text-align: center;">Small</td> <td style="width: 25%; text-align: center;">Medium</td> <td style="width: 25%; text-align: center;">Large</td> </tr> <tr> <td style="padding: 5px;">No</td> <td style="padding: 5px;">No</td> <td style="padding: 5px;">N/A</td> <td style="padding: 5px;">N/A</td> </tr> </table>	Micro	Small	Medium	Large	No	No	N/A	N/A
Micro	Small	Medium	Large						
No	No	N/A	N/A						
Are any of these organisations exempt?	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">No</td> <td style="width: 25%; text-align: center;">No</td> <td style="width: 25%; text-align: center;">N/A</td> <td style="width: 25%; text-align: center;">N/A</td> </tr> </table>	No	No	N/A	N/A				
No	No	N/A	N/A						

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)
Increase of £ 50-350k	Decrease of £ 7.25m	Net Impact £ 6.9 - £7.2m

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Evidence Base (for summary sheets)

THE CURRENT RULES FOR BUSINESS EXPENDITURE ON CARS

Capital allowances allow the cost of acquisition of capital assets to be written off against a business' taxable profits. As such, they take the place of depreciation in the commercial accounts, which is not allowed for tax. There are special rules for calculating the tax relief available for business expenditure on cars and also for determining the amount of expenditure incurred on leasing cars that can be charged against profits.

For capital allowances, the rules for cars that cost more than £12,000 are:

- the car is not included in the general plant and machinery pool but accounted for separately in a single asset pool
- writing down allowances are restricted to a maximum annual amount of £3,000.

When an asset that has been dealt with in a single asset pool is disposed of, the pool ceases and a balancing adjustment (charge or allowance) is made. This brings the total allowances given during the period of ownership of the asset into line with the actual depreciation suffered on the asset over that period.

The £12,000 threshold has not been changed since 1992 and therefore applies to a significant proportion of all business cars – currently estimated to be more than 50%. Qualifying hire cars¹ are exempt from the existing rules and are therefore accounted for in the general plant and machinery pool, regardless of cost. Cars with emissions of 110g/km or below qualify for 100 per cent first year allowance and are exempted from these rules regardless of their cost. The administrative burden for cars that are used partly for non-business purposes will not be affected by these reforms. This is assumed to be the case for cars owned by the majority of the smallest businesses.

An example of the tax calculations for a car costing £20,000 that is sold after 4 years for £9,000 is shown in the table below.

Illustrative example of capital allowance (CA) restrictions

	WDV ² b/f	Purchases	Disposals	CA	WDV c/f	Tax implications ³
Year 1	0	20,000	0	3,000	17,000	-840
Year 2	17,000	0	0	3,000	14,000	-840
Year 3	14,000	0	0	3,000	11,000	-840
Year 4	11,000	0	9,000	2,000 ²	0	-560

¹ These include certain taxis, Daily Hire cars, and Cars leased to the disabled.

² Written Down Value (WDV)

³ based on a tax rate of 28%. For unincorporated businesses and companies not subject to the full CT rate, this will not apply.

For the lease rental restriction

Under the current rules for taxation of business expenditure on cars there is also a restriction on the amount of expenditure incurred on the hire of a car that is deductible in computing taxable profits (the lease rental restriction (LRR)). Ordinarily leasing costs can be deducted in full. However, in the case of cars costing more than £12,000, a formula restricts the amount that can be claimed. This restriction is a permanent disallowance and is currently applied to every lessee in a chain of leases. It was introduced to prevent businesses circumventing the restriction on the capital allowance rules by hiring rather than buying their motor vehicles.

BACKGROUND TO INTERVENTION

Over the years the Government has received representations from business that the present system is in need of reform. This has been mainly on the grounds that the current rules impose a compliance burden because of the need to maintain a single asset pool for each car costing over £12,000. For owners of large fleets this can result in a particular burden as cars tracked separately in this way can number hundreds.

Another reason put forward by business for the change is that the current regime is outdated because the cost threshold for the single asset pool treatment has not been updated for many years. Some businesses suggest that, at the very least, the threshold needs to be raised in order to bring the rules back into line with the policy intention when they were first introduced, which was to restrict allowances for luxury cars. This option was considered, but rejected because it was not in line with Government's wider objectives.

CONSULTATION AT BUDGET 2006

At Budget 2006 the Government launched a formal consultation on modernising tax relief for business expenditure on cars. In particular it set out a number of options, and specifically sought views on a preferred option.

The following options in bold were set out in "Modernising tax relief for business expenditure on cars"⁴:

1. Do nothing
2. **Treatment of expenditure on cars in a new pool alongside a range of first-year allowances based on CO₂ emissions, (Preferred option)**
3. **Straight abolition. It was considered, however, that this option would run counter to the Government's environmental objectives.**
4. **Treatment of expenditure on cars in a new capital allowance pool for cars, with a lower writing-down allowance than that of the general plant and machinery pool. It was pointed out, however, that this option would be inconsistent with the Government's environmental and fiscal objectives**

Following the consultation the Government published an update in Budget 2007, which sought further comments on a refinement of its preferred option. A summary of responses to both the original consultation, and the update, was published in October 2007.

⁴ http://www.hm-treasury.gov.uk/budget/budget06/other_documents/bud_bud06_cars.cfm

The refined option was to:

- Place cars with CO₂ emissions not exceeding 165g/km in the general plant and machinery pool,
- Introduce a new pool, with a lower writing-down allowance than that of the general plant and machinery pool for cars with CO₂ emissions above 165 g/km.

BUDGET 2008

Budget 2008 announced the Government's proposals following the consultation, and stated that with effect from 1 April 2009 for corporation tax purposes (6 April 2009 for income tax) the capital allowance treatment of all cars will be reformed. Expenditure on cars with CO₂ emissions above 160g/km will attract 10 per cent Writing Down Allowance (WDA) and expenditure on cars with CO₂ emissions of 160g/km or below (but above 110 g/km) will attract 20 per cent WDA.

The Government also announced its intention that, subject to State aid approval, cars leased to those in receipt of certain disability allowances will be placed in the 20 per cent main pool, regardless of their CO₂ performance.

The rules, which disallow a proportion of car lease rental payments, will be reformed in line with the new capital allowances rules. The new disallowance will be 15 per cent of the relevant payments, applied to cars with emissions above 160g/km. The Government also announced that it was considering the option of applying the disallowance only to the final business user in a chain of leases.

Having considered all the options for reforming the rules for business expenditure on cars in the light of its policy objectives, the Government believes that the "do nothing" option would not be appropriate. Option 2 is, in the Government's opinion, the best option. The Government is not consulting further on the options available, but recognises that, for the legislation to be effective, it must achieve its primary objective while minimising other consequences. The Government would therefore welcome comments on the draft legislation - specifically on the practical implications of the new policy.

THE NEW RULES FOR TAX RELIEF BUSINESS EXPENDITURE ON CARS

With effect from 1 or 6 April 2009 the current rules will be abolished and replaced with the following:

- Qualifying expenditure on all cars with CO₂ emissions above 110 g/km but not exceeding 160g/km will be placed in the main plant and machinery pool and attract 20 per cent WDA on a reducing balance basis,
- Qualifying expenditure on cars with CO₂ emissions greater than 160g/km will be placed in the special rate plant and machinery pool and attract 10 per cent WDA on a reducing balance basis,
- The lease rental restriction (LRR) will only apply to leases commencing after 1 April 2009 (6 April for income tax purposes) for cars with CO₂ emissions over 160g/km and will be applied at the flat rate of 15%. Further, it will only be applied to one lessee in a chain of leases.

The new rules represent a simplification:

- they replace the requirement for businesses to maintain single asset pools (except where there is non-business use of the car) for cars costing over £12,000 by utilising two existing plant and machinery pools, the main (20 per cent) pool and the special rate (10 per cent) pool.
- the LRR is simplified by replacing the formula with a flat rate 15 per cent disallowance. The disallowance will only be applied to one lessee in a chain of leases.

Transitional Arrangements

The current rules will continue to apply for expenditure incurred before 1 April 2009 (for corporation tax) or 6 April 2009 (for income tax) for a period of five years; any balance of unrelieved expenditure will then be transferred to the main (20 per cent) plant and machinery pool. However expenditure on cars that is dealt with in single asset pools due to the need to make “private use adjustments” will remain in single asset pools until the car is disposed of. The existing LRR rules will continue to apply to leases that commenced before 1 or 6 April 2009 until the expiry of the lease.

As the majority of business cars are owned by larger businesses and are disposed of within 36-48 months of acquisition, the number of cars that will still be held after five years by these businesses is expected to be small. The Government welcomes views on the length of the transitional period.

ASSESSMENT OF POTENTIAL IMPACTS OF OPTION 2- REPLACING EXISTING RULES WITH NEW LEGISLATION BASED ON CO₂ EMISSIONS

Population of Vehicles

HMRC receive annual sales data for new cars which shows the number of car sales to businesses by the specification of the model, fuel type, engine size, transmission type, number of doors, body type, drive (4 or 2 wheel), list price, mpg, CO₂ emissions g/km, discount price and estimates of the residual values of the vehicles after years 2 to 5.

As at December 2008 it is estimated that there will be approximately 3 million cars in business use – this includes hire cars, cars provided to employees as part of their remuneration package, and those registered to proprietors of unincorporated businesses. Approximately 1.4 million new cars are sold to businesses within the UK each year. The latest currently available data covers sales to 2007.

Economic Impact

The new policy will potentially impact on all business sectors that purchase or hire cars. The economic benefits come from reducing the administration burden of complying with the existing rules.

Small Business

In calculating the impact on businesses it is assumed that the majority of the smallest unincorporated businesses will have some private usage of their business vehicles. As such, these businesses will still be required to track expenditure on these vehicles in single asset pools, and it has been assumed they will not experience any reduction in admin burden as a result of the measure.

Qualifying Hire Cars

At present, expenditure on qualifying hire cars (covering daily hire cars, cars leased to the disabled and taxis other than Black cabs) is accounted for in the general plant and machinery pool, regardless of their cost. However, going forward, these will be subject to the CO₂ emissions-based regime, and be accounted for in one of the two plant and machinery pools. Expenditure on these cars is already dealt with in the general pool so currently there are no balancing adjustments on disposal. It is expected that most of the businesses affected will be large, and many of them will already be operating 10 per cent capital allowance pools for assets other than cars. As such the administration cost of having to record some cars in the 10 per cent pool rather than the 20 per cent pool (the current state of play) is considered to be negligible. There is likely to be a marginal admin increase in costs for certain large businesses that will need to carry out some minor modifications to accounting systems in order to record their CO₂ emissions. The businesses most likely to be affected are those in the daily hire sector, and the incremental cost has been factored in to the admin burden calculations.

Cars costing less than £12,000

The new rules are based on CO₂ emissions, not cost, and it is estimated that some 280,000 cars that cost less than £12,000 have CO₂ emissions exceeding 160g/km. Going forward if a business incurs qualifying expenditure on such cars it will be allocated to the special rate pool because of their CO₂ emissions. For smaller businesses that may not, in the normal course of events, operate a special rate pool, this could result in their having to maintain two capital allowance pools for the first time.

Cars subject to LRR

The reform of the lease rental restriction will give an admin burden saving for businesses leasing cars that were previously subject to the old rules, as the restriction will only apply to one lessee in a chain of leases. The flat rate of 15 per cent will also mean that a lessee will no longer need to know the retail price when leasing a car but will now only need to identify a car's CO₂ emissions.

The restriction has been retained to prevent business circumventing the lower rate of WDAs for cars with higher CO₂ emissions by leasing from overseas lessors (who may enjoy more generous capital allowances (for these cars) than are available in the UK). A flat rate disallowance of 15 per cent will be more favourable to lessees of more expensive cars than the previous rules. It is believed that the admin burden savings arising from the flat rate disallowance as compared to the previous formula will be considerable.

Qualifying hire cars: certain taxis, Daily Hire cars and Cars leased to the disabled

The cars leased or rented across these sectors were previously exempt from the expensive car rules. Expenditure on these cars was pooled in the main plant and machinery pool regardless of the cost. Under the new rules expenditure on cars emitting CO₂ over 160g/km will be dealt with in the special rate (10 per cent) pool and high-emission leased cars subject to the 15 per cent flat-rate disallowance.

At Budget 2008 the Government indicated its intention to provide special treatment for cars leased to the disabled (subject to State aid approval), this remains the Government's intention. However this has been deferred for the present time. The impact of this deferral is included as a small part of the Exchequer impact of the wider measures set out below.

Environmental Impact– carbon assessment

Although the CO₂ savings attributed to this policy are difficult to estimate separately, the Government expect some behavioural effects to result from linking the tax treatments to CO₂ emissions. As VED and Company Car Tax are also emissions-based tax regimes there could be a behavioural shift towards the purchase of cars with lower levels of emissions in the event that all the measures combined prove an effective incentive to businesses.

In addition to direct Government intervention, reductions in CO₂ emissions by cars are believed to have been influenced by a variety of other factors including increased consumer awareness of environmental concerns, expectations of a more volatile fuel price and increased penetration of diesel powered cars as a share of the car stock brought about by new better performing engine technology.

It should be noted that analysis has indicated that for the majority of high emission (particularly petrol) engine cars, there are near equivalent lower emission models of a similar price and specification (most often available from the same manufacturer) e.g. a diesel equivalent model. It is expected that the new rules may act (in conjunction with other factors) to influence some businesses to switch to lower-emission equivalent diesel models.

Estimates of effects on administrative burdens

Overall, the annual admin burden savings including the simplification of the lease rental restriction (when the measure becomes fully effective) are estimated to be around £8 million. This has been calculated using the Standard Cost Model fixed at 2005 prices up rated to reflect 2008 prices (see Annex for analysis of the administrative burden). This estimate was derived by comparing the estimated admin burdens for businesses that will be subject to the new rules with the admin burdens of continuing with the existing arrangements. In total it is estimated that the overall admin burden should fall almost 30% of the baseline. As the car hire sector is dominated by large operators the overall cost to them of the new regime is estimated at between £50,000 and £400,000 p.a. with the cost likely to lie towards the lower end of this banding.

Estimates of effects on HMRC staff costs

HMRC will incur additional administrative costs in ensuring compliance with the new legislation. HMRC will need to develop guidance for compliance staff to enable them to risk assess and challenge non-compliant businesses. However, these would be relatively minor costs and hence are not monetised. HMRC will keep its compliance strategy under review to ensure that resources are made available where necessary.

Exchequer Impact

The table below details the estimated Exchequer impact of this reform. The costing assumes that the measure will be effective from April 2009. The cost to businesses in the table below includes the impact of qualifying hire cars, which will now be included in the rule changes (all figures are £'s million)

Year	08/09	09/10	10/11	11/12	12/13	5 yr total
Exchequer Impact (£m)	0	+60	+110	+120	+210	+500

Although business will be able to receive tax relief for all their expenditure under the new arrangements, it will accrue more slowly than hitherto because balancing adjustments will no longer be made on disposal of cars where expenditure was allocated to single asset pools under the current rules.

Transitional Arrangements

The administrative costs of moving to the new arrangements are expected to be negligible. Where businesses maintain both main and special rate pools, the cost of changing systems to track expenditure on high emission cars in the special rate pool is expected to be negligible.

In the main, any transitional cost could fall on smaller businesses that do not operate a special rate pool and do not have any non-business use of their vehicles. It is difficult to estimate the transitional cost to these businesses accurately, but it is expected to be low.

IMPACT ON BUSINESS OF THE NEW RULES

BENEFIT	COST
<p>Businesses purchasing cars (which are not subject to the private use adjustment) which are not qualifying hire cars will benefit from no longer having to maintain single asset pools for cars costing over £12,000. Expenditure will be allocated to one of two general plant and machinery pools.</p>	<p>Pooling expenditure in the plant and machinery pools will mean that businesses will no longer be able to make balancing adjustments on the disposal of cars. Instead full relief will be given through the 10 per cent or 20 per cent pools (as appropriate) over time.</p>
<p>Businesses purchasing qualifying cars that cost over £12,000 will no longer be restricted to the maximum writing down allowances of £3,000 per annum.</p>	<p>Businesses that currently purchase cars costing less than £12,000 but that have CO₂ emissions over 160 g/km will be subject to the lower WDA.</p>
<p>The Lease Rental Restriction will only apply to one lessee in a chain of leases.</p>	<p>Lessees under new leases of qualifying cars worth between (approximately) £12,000 and £17,000 and with CO₂ emissions above 160 g/km will suffer a higher rate of disallowance than under the previous LRR rules.</p>
<p>The current formula for calculating the amount of rentals that are restricted will be replaced by a flat rate disallowance applying to all leases with CO₂ emissions above 160 g/km.</p>	<p>Lessees under new leases of qualifying cars that emit over 160 g/km CO₂ and that cost less than £12,000 will now be subject to a 15 per cent flat-rate restriction.</p>
<p>Lessees under new leases of qualifying cars worth more than (approximately) £17,000 with CO₂ emissions above 160g/km will no longer suffer from deducting higher LRR than 15 per cent flat rate.</p>	<p>Manufacturers producing both petrol and diesel car models with emissions generally over the 160 g/km CO₂ limit may find businesses switch to similarly-priced lower-emission models which may potentially be produced by rival car producers</p>

SPECIFIC IMPACT TESTS

The various elements of this measure would apply to all UK businesses that own or hire business cars. They are not expected to have any legal aid impacts. The new rules are in accordance with the principles of sustainable development and are compatible with the Human Rights Act. They would not have a significantly different effect in rural areas.

Neither would they significantly impact on:

- Health and well being;
- Race equality;
- Disability equality; or

- Gender equality.

Environmental Tests

- Waste management,
- Air quality,
- The appearance of landscape and towns,
- Habitat and wildlife,
- Noise levels and climate change

As mentioned earlier it is difficult to assess the extent of the environmental impact of this measure, but some positive behavioural effects are expected to result from linking the different tax treatment to CO₂ emissions.

Sustainable development and other environmental concerns

The five principles of sustainable development;

- Living within environmental limits;
- Ensuring a strong, healthy and just society;
- Achieving a sustainable economy;
- Promoting good governance;
- Using sound science responsibly.

This measure is intended to contribute to delivery of the above five principles as part of a package of measures aimed at incentivising businesses to purchase lower-emission cars.

Small Firms Impact Test

All business cars have been included in the reform as it aims to be consistent with the Government's wider environmental objectives to promote the switch to cars with lower CO₂ emissions. The 2006 Budget consultation specifically invited comments on the impact the proposals would have on self-employed individuals and other unincorporated businesses.

Small businesses with cars used for both business and non-business use will continue to allocate expenditure to single asset pools to enable an adjustment to be made to disallow the proportion of the allowances attributed to non-business use. As such, small business may be impacted less than large business. If a car has dual-purpose use then the qualifying expenditure will be allocated to a single asset pool. However, unlike the old rules the rate of WDA of the single asset pool will depend on the car's CO₂ emissions. There will be a balancing adjustment made when the pool ceases whether the rate of writing down allowances is 10 per cent or 20 per cent.

Small businesses have been specifically included in this measure to incentivise the purchasing of cars with lower CO₂ emissions. Also to the extent that self-employed individuals and other unincorporated businesses (e.g. partnerships) provide cars for their employees, or own cars they do not use for purposes other than business, those unincorporated businesses would enjoy the same compliance cost savings as companies would from the new measure.

There may be some very small businesses that incur expenditure on cars that are used wholly for business purposes. If the car's CO₂ emissions are more than 160g/km these businesses will

need to maintain a special rate pool of expenditure for plant and machinery in addition to the main pool. This might potentially give rise to a slight increase in administrative burdens because it is unlikely they would own any other assets for which the expenditure is dealt with in the special rate pool. However these businesses are potentially able to benefit from the new rules introduced at Budget 2008 that enable businesses to claim a plant and machinery writing down allowance of up to £1,000 where the unrelieved expenditure of the main pool or the special rate pool is £1,000 or less.

Competition Assessment

Manufacturers are continuously innovating to produce lower carbon emitting cars such as hybrid, electric and bio-fuel cars. Some manufacturers may be affected because businesses may switch to lower-emission alternatives. However this measure in the long term is not expected to have any adverse impacts on competition, as it should not:

- directly limit the number or range of suppliers;
- indirectly limit the number or range of suppliers;
- limit the ability of suppliers to compete; or
- reduce suppliers' incentives to compete vigorously.

This measure does not affect cars subject to the private use adjustment, i.e. to the majority of the smallest businesses. The Government do not expect that the four dimensions of competition outlined above will be affected by the fact that this measure affects different sizes of business in different ways

RISKS

Many of the administrative burden and compliance cost estimates in this assessment are based on assumptions. These are informed by the most recent data available. However, they are believed to be broadly indicative of expected impacts.

The Government would welcome comments on the assumptions made in this impact assessment.

IMPLEMENTATION TIMETABLE

The final legislation for the new policy is scheduled to apply to all qualifying expenditure incurred after 1 April 2009 (for corporation tax) and 6 April 2009 (for income tax).

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No

Analysis of the administrative burden

HMRC is committed to reducing the administration burden placed on business in disclosing information to HMRC or to third parties. This burden is assessed through the 'Standard Cost Model' (SCM), an activity-based costing model which identifies the activities a business has to do to in order to comply with HMRC's obligations, and then estimates the cost of these activities, including agent fees and software costs. The Impact Assessment template requires SCM figures to be presented in relation to a May 2005 baseline, that is, the prices and populations on which the original data was produced.

The present administration burden costing uses the same SCM approach, based on an estimation of how the baseline data has changed. As a matter of principle, the baseline is taken as a given and is not reviewed. The purpose of the present cost estimates is to assess how burdens might have changed in relative terms. Using this approach, the SCM model indicates that this measure will produce an overall reduction in the administration burden of just over £7m, based on the following assumptions:

The baseline burden relating to the existing "single asset pool" capital allowance arrangements for cars costing more than £12,000 is just over £10m. This burden should be removed for businesses which place all qualifying cars in one of the two general pools in future. Cars subject to the private use adjustment are excluded as they will continue to be accounted for in single asset pools. As a result, it is assumed that the global burden should be reduced by around three quarters. According to the database baseline this generates a total administration burden saving of just over £7.5m.

However, there is also an additional burden of moving to these new pools. It has been assumed that all the cars owned by businesses with no employees ('nano businesses') have an element of private use, and are therefore subject to the private use adjustment, i.e. that they will still be required to maintain single asset pools in respect of these cars. The database baseline assumes that around 550,000 nano businesses and around 200,000 other businesses are affected by the private use requirements. For all other businesses it is assumed that the burden of each of the new pools is half that of the current long life assets pool (in terms of the in-house business costs), and that where an agent is used, the agent's fee is around a third of that applying to the current long life assets pool. According to the database baseline these assumptions generate a total increase in admin burdens of around £3m.

Qualifying hire cars are presently exempt from the existing rules. Including these going forward is estimated to impact on just over 2,000 businesses. According to the database this generates a total increase in admin burdens of just over £100,000. The £400,000 upper limit mentioned in the summary page was based on more cautious assumptions covering how the new administrative costs might impact on the daily car hire sector. As such it can be regarded as a theoretical upper limit of the increased administration burden that could impact the sector.

The burden of the Lease Rental Restriction (LRR) is identified separately in the administration burden baseline. The baseline data assumes that the LRR will not generally apply to nano businesses, but does apply to all other sizes of business, of which the baseline assumes there are around 650,000. The existing baseline burden of the LRR is just under £15.5m. It has been assumed that the existing in-house business costs of the current obligation will fall by one sixth in the future, and that where an agent is used, the agent's fee will also fall by one sixth. This results in a total reduction in administration burdens of around £2.5m. These savings assume that there will be limited change to information retrieval costs, but there will be savings associated with the assessment of information which has been retrieved, performing the

necessary calculations, presenting figures, and then with checking the calculations and presentation.

In total these assumptions generate an administration burden reduction of between £6.9-7.2m (based on 2005 prices and data) relative to an initial total administration burden baseline of £25.5m. This constitutes a reduction in the baseline of almost 30%. Up-rating the 2005 data to 2008 prices gives the £8m per year savings shown on the summary page of this impact assessment (N.B. figures have been rounded).

Glossary of terms

Car

For Plant and machinery allowances purposes a **car** is a mechanically propelled vehicle except a vehicle:

1. constructed in such a way that it is primarily suited for transporting goods of any sort, or
2. of a type which is not commonly used as a private vehicle and is not suitable for use as a private vehicle.

Expenditure Pool

Expenditure is pooled in order to calculate writing down allowances, balancing allowances and balancing charges. You pool expenditure by adding it together and deducting disposal values from the total. If the disposal values are more than the expenditure in the pool the difference is a balancing charge. There are no balancing allowances until the qualifying activity ends. When it does, the balancing allowance is equal to the unrelieved qualifying expenditure. [CA23210]

Vehicle Excise Duty (VED)

Every vehicle registered in the United Kingdom (UK) must be taxed if used or kept on a public road. For further information please visit

Vehicle Excise Duty

http://www.direct.gov.uk/en/Motoring/OwningAVehicle/HowToTaxYourVehicle/DG_4022118

G/km

Grams per kilometre

First Year Allowance (FYA): Expenditure on cars with low carbon dioxide emissions

Businesses of all sizes can claim 100% FYAs on capital expenditure on a car provided that:

- the car is "unused and not second hand", and is first registered on or after 1 April 2008;
- it is an electric car, or
- a car with CO2 emissions of not more than 110gm per km driven.
- the expenditure is incurred between **1 April 2008 and 31 March 2013**.

More related links

Consultation on modernising tax relief for business expenditure on cars: summary of responses

<http://www.hm-treasury.gov.uk/3758.htm>

Budget 2007: Modernising tax relief for business expenditure on cars: a consultation update

<http://www.hm-treasury.gov.uk/4142.htm>

B

How to Respond

Contact Point

B.1 Comments are invited on the matters set out in this document. If you have any comments on the issues above or more generally on the content of this document, or if you have any technical queries then please send them to:

Corporate Taxation Team

HM Treasury

1 Horse Guards Road

London SW1A 2HQ

Email: business.cars@hm-treasury.gsi.gov.uk

Telephone (Treasury switchboard): 0207 270 5000

Comments should be received by 27 February 2009

For technical queries please telephone and leave a message on 020 7147 2610. A member of the HMRC CT& VAT team will contact you.

Disclosure of responses

B.2 Information provided in response to this discussion paper, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004).

B.3 If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances.

B.4 An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.



The Government consultation code of practice

About The Consultation Process

This consultation is being conducted in accordance with the Government's Consultation Code of Practice. If you wish to access the full version of the Code, you can obtain it online at:

<http://www.berr.gov.uk/files/file47158.pdf>

THE CONSULTATION CRITERIA

C.1 . When to consult - Formal consultation should take place at a stage when there is scope to influence the policy outcome.

C.2 . Duration of consultation exercises - Consultations should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible.

C.3 Clarity of scope and impact - Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals.

C.4 Accessibility of consultation exercise - Consultation exercises should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.

C.5 The burden of consultation - Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained.

C.6 Responsiveness of consultation exercises - Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation.

C.7 Capacity to consult - Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience.

If you feel that this consultation does not satisfy these criteria, or if you have any complaints about the process, please contact:

Richard Bowyer, Better Regulation Unit, 020 7147 0062 or Richard.bowyer@hmrc.gsi.gov.uk

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