Briefing: Autumn Budget 2017

Overview

The Autumn Budget contained mixed news for fleets and business car drivers. Diesel vehicles were not hit as hard as some commentators feared, although the brunt of the increases to Vehicle Excise Duty (VED) and company car benefit-in-kind (BIK) from April 2018 will be borne by users of diesel-powered cars. Nevertheless, figures in the Treasury policy papers suggest the Government expects that diesel will continue to command the largest share of new company car sales for years to come.

Ultra-low emission vehicles received support in the form of £200 million of Government money towards a new **Charging Investment Infrastructure Fund**, plus £100 million to maintain the Plug-In Vehicle Grant until 2020. However, the Chancellor did not take the opportunity to alter the standing company car BIK scales for ULEVs. As they are, they will see the tax on a company EV rise rapidly from 9% this year to 16% in 2019 before falling back to 2% in 2020.

Emissions test cycles played a significant part in the Budget announcement. The Chancellor provided welcome clarification that vehicle CO_2 output measurements, obtained from the outgoing NEDC test cycle, will continue to apply for BIK purposes until April 2020, not those from the new WLTP test procedure which will be undertaken for all vehicles from September 2018. But it will be results from **Real Driving Emissions (RDE)** tests – which are only just beginning to take place, with the RDE2 standard due to come in January 2020 – that will determine which diesel cars escape the higher first-year VED levy and the entire diesel BIK surcharge in future.

Transport continues to be a focus for Government investment. Government capital spending on transport is set to double from £6.5 billion in the current fiscal year to £13 billion in 2020-21, although much of that is earmarked for HS2 rather than roads. Last year's Budget created a National Infrastructure Commission to coordinate investment in digital and transportation technologies.

The budget, as well as promising regulatory changes to make the UK a friendly environment in which to test self-driving cars, announced an innovation prize for redesigning future road schemes to support autonomous vehicles. The Chancellor also earmarked £1.7 billion for a new **Transforming Cities Fund** to improve connectivity and support jobs across England's city regions.

Company car tax, VED and Real Driving Emissions

The headline changes made in the Budget to both company car tax and Vehicle Excise Duty cannot be discussed without reference to Real Driving Emissions (RDE). RDE measurement is a new European emissions testing procedure that will be mandatory for all vehicles sold in the EU from 2020 onwards. It involves fitting vehicles with measuring instruments and driving them on the road to see how closely their 'real world' emissions match the results of the laboratory 'euro' emissions test carried out on a rolling road.

The Budget announced that:

- Diesel cars that don't meet the second Real Driving Emissions standard – known as RDE2 – scheduled for 2021 will be subject to increased first-year VED charges from 6 April 2018. They will be taxed as if they are one band higher.
- Drivers of diesel company cars will see the 3% diesel surcharge on their BIK tax rise to 4% next April. Diesels that meet RDE2 will be completely exempt from the diesel surcharge (i.e. their drivers will pay the same tax as drivers of a petrol car with the same CO_2 emissions). The surcharge will not apply to diesel hybrids.

However, HM Treasury said:

> *"It is likely that few, if any, cars will meet RDE2 standards in 2018 to 2019. To prevent employers from having to contact HMRC in respect of any that do, HMRC will issue guidance on how they should be treated so that the diesel supplement is disapplied. For 2019 to 2020 onwards, employers will have to note reported NOx emissions for new diesel cars and check whether or not these meet the RDE2 standard."*

Therefore, virtually all diesel company car drivers will see their BIK increase next April by an additional 1 percentage point on the diesel surcharge, on top of the annual increase in April 2018.

The Treasury estimates that linking diesel BIK to RDE2 will involve extra reporting for around 230,000 drivers a year from 2019 onwards. As the Treasury puts the number of company car drivers who change vehicle at 350,000 per year, this implies it believes new fleet sales will remain approximately 66% diesel in four or five years.

Company car tax rates to 2021

Except for the increase in the diesel surcharge, the Budget left company car BIK rates to 2021 unchanged:

BIK Rates 2017-2020

CO2 g/km	% BIK Rate					
	2017-18		2018-19		2019-20	
	Petrol	*Diesel*	*Petrol*	*Diesel**	*Petrol*	*Diesel**
0-50	9	12	13	17	16	20
51-75	13	16	16	20	19	23
76-94	17	20	19	23	22	26
95-99	18	21	20	24	23	27
100-104	19	22	21	25	24	28
105-109	20	23	22	26	25	29
110-114	21	24	23	27	26	30
115-119	22	25	24	28	27	31
120-124	23	26	25	29	28	32
125-129	24	27	26	30	29	33
130-134	25	28	27	31	30	34
135-139	26	29	28	32	31	35
140-144	27	30	29	33	32	36
145-149	28	31	30	34	33	37
150-154	29	32	31	35	34	37
155-159	30	33	32	36	35	37
160-164	31	34	33	37	36	37
165-169	32	35	34	37	37	37
170-174	33	36	35	37	37	37
175-179	34	37	36	37	37	37
180-184	35	37	37	37	37	37
185-189	36	37	37	37	37	37
190-194	37	37	37	37	37	37
195-199	37	37	37	37	37	37
200-204	37	37	37	37	37	37
205-209	37	37	37	37	37	37
210-214	37	37	37	37	37	37
215-219	37	37	37	37	37	37
>220	37	37	37	37	37	37

BIK Rates 2020-2021

CO2 (g/km)	Electric range (miles)	Petrol	Diesel*
0		2	6
1 – 50	130 or over	2	6
1 – 50	70 – 129	5	9
1 – 50	40 – 69	8	12
1 – 50	30 – 39	12	16
1 – 50	Under 30	14	18
51 – 54		15	19
55 – 59		16	20
60 – 64		17	21
65 – 69		18	22
70 –74		19	23
75 – 79		20	24
80 – 84		21	25
85 – 89		22	26
90 – 94		23	27
95 – 99		24	28
100 – 104		25	29
105 – 109		26	30
110 – 114		27	31
115 – 119		28	32
120 – 124		29	33
125 – 129		30	34
130 – 134		31	35
135 –139		32	36
140 – 144		33	37
145 – 149		34	37
150 – 154		35	37
155 – 159		36	37
160 and above		37	37

** For diesels that meet real world Euro 6 emissions (RDE2), there will be no 4% surcharge: the % BIK rate will be the same as petrol. The non-diesel rates apply to all other powertrains – including electric, hydrogen, etc.*

Company Van Benefit Charge

The taxable cash equivalent where a van is made available to an employee for private use will increase by 3.7% next April from the current £3,230 to £3,350.

Company Car Fuel BIK

The multiplier for car fuel benefit-in-kind will increase by 3.5% next April from £22,600 to £23,400. The van fuel benefit charge will increase from £610 to £633.

Charging Private EVs at Work

From April 2018, there will be no benefit-in-kind charge on electricity that employers provide to charge employees' own electric vehicles. This rule already applies to plug-in company cars.

Electric Goods Vehicle First Year Capital Allowance

The 100% First Year Allowance (FYA) on zero-emission goods vehicles was due to end next March. The Government will extend it for three years to 1 April 2021 together with the 100% FYA on installing refuelling equipment for natural gas, biogas and hydrogen vehicles.

Vehicle Excise Duty

Vehicle Excise Duty rates for cars, vans and motorcycles will increase by RPI from next April. In addition, diesel cars registered after 1 April 2018 that do not meet the RDE2 emissions standard will be subject to a supplement so that their First-Year Rate will be calculated as if they were in the VED band above.

The Treasury policy paper gives as examples an additional £20 on a typical Ford Focus diesel; £40 more on a VW Golf; £300 more on a Vauxhall Mokka and £400 on a Land Rover Discovery. **Note:** The First Year VED band move will not apply to light and medium commercial vehicles, which will be subject to the RPI increase only.

The Heavy Goods Vehicle VED and Road User Levy rates will be frozen from 1 April 2018. The Government wants to reward hauliers that plan their routes to encourage the efficient use of roads and improve air quality. It will launch a call for evidence on updating the existing HGV Road User Levy to achieve this aim.

The Government will also consult on a definition of zero-emission capable taxis so that from April 2019 they can be exempted from the £310 VED supplement that applies to cars costing more than £40,000 for the first five years after purchase.

New Diesel VED bands from 1 April 2018

CO_2 emissions (g/km)	Standard Rate	First Year VED Rates	First Year VED Rates for Diesels not meeting RDE2 standard
0	£0	£0	N/A
1 - 50	£140	£10	£25
51 - 75	£140	£25	£105
76 - 90	£140	£105	£125
91 - 100	£140	£125	£145
101 - 110	£140	£145	£165
111 - 130	£140	£165	£205
131 - 150	£140	£205	£515
151 - 170	£140	£515	£830
171 - 190	£140	£830	£1,240
191 - 225	£140	£1,240	£1,760
226 - 255	£140	£1,760	£2,070
Over 255	£140	£2,070	£2,070

Fuel duty

The Budget announced that fuel duty will be frozen for an eighth consecutive year. Changes to fuel duty rates for alternative fuels will be announced in the next Budget.

In the meantime, the Government will end the fuel duty escalator for Liquefied Petroleum Gas (LPG), freezing it in 2018-19, alongside the main rate of fuel duty.

Regime for measuring CO_2 emissions

Concerns have been voiced in the industry over the replacement of the long-standing NEDC European vehicle emissions testing regime by the new **Worldwide Harmonised Light Vehicles Test Procedure** (WLTP), which generally records higher CO_2 outputs. Current legislation does not specify which figure the DVLA and HMRC should refer to when setting and collecting VED and company car tax.

The Budget announced that the Government will legislate for NEDC-compatible (or NEDC Correlated) data to remain the basis for VED and BIK until **April 2020**. Until then, WLTP can be ignored. The Government considers that this timeline for introducing the new system will give car manufacturers time to reflect the new values in all of their products and give fleets time to adjust policies to WLTP values from 2020 onwards.

Employee business expenses

Following a consultation earlier this year, the Government will make several changes to the taxation of employee expenses.

- To reduce the burden on employers, from April 2019 they will no longer be required to check receipts when reimbursing employees' subsistence claims using benchmark scale rates. The existing concessionary scale rates for accommodation and subsistence overseas will become statutory, to provide greater certainty for businesses.

- The consultation highlighted widespread confusion and lack of awareness on travel expenses, including claiming tax relief on AMAPs. HMRC will work with external stakeholders to improve its guidance in these areas.

Funding air quality from extra diesel taxes

The extra revenue raised by the VED supplement on new diesels and increase in the diesel BIK surcharge will be used to pay for a new £220 million Clean Air Fund. The Chancellor said the fund will allow heavily-polluted cities in England to help people and businesses adapt to improvement measures.

Next generation vehicles

One of the most widely-anticipated Budget measures was further investment in Connected and Autonomous vehicles. In the event, no extra money was specifically directed to self-driving cars. Instead, the Government has pledged world-leading changes to the regulatory framework, such as setting out how driverless cars can be tested without a human safety operator, with the aim of putting fully autonomous cars on UK roads by 2021.

Ultra-low emission vehicles will receive additional funding and support, though. The Government plans to put £200 million into a new Charging Investment Infrastructure Fund, to be topped up to £400 million by private investment. There will be a further £40 million for developing charging technology, part of a £2.3 billion increase in R&D from the National Productivity Investment Fund (NPIF).

£100 million will be provided to keep the Plug-In Car Grant scheme funded until 2020 and the Budget set an ambitious target for central Government departments to electrify 25% of cars in their fleets by 2022.

Transport investment

On top of £1.1 billion already earmarked for roads and local transport over the next three years in previous budgets, the budget announced a £1.7 billion **Transforming Cities Fund** to improve local transport connections. The Budget also committed to specific improvements to rail and road connections in the Cambridge – Milton Keynes – Oxford corridor.

Recognising the need to coordinate investment in transport infrastructure with investment in digital connectivity, the Budget also committed £385 million for 5G mobile and full-fibre broadband networks, both funded from the NPIF.

Comment: Nick Brownrigg, CEO, Alphabet

"As with any Budget, the devil is in the detail. We'll only understand the full implications for fleets and company car drivers once we've seen and digested the detailed information in the tax documents. The announcement of no BIK for electric vehicles (EVs) charged at work is an interesting move which we're eager to see more detail on, although company-owned vehicles are already exempt from this.

The £400m investment in EV charging infrastructure and continued support of plug-in grants is welcome, as is the cancellation of fuel duty rises for petrol and diesel due in April 2018. But I think it's a missed opportunity in a pro-ULEV budget not to bring forward the BIK rates from 2020, as it means a driver taking a zero emission vehicle today will see an increase in BIK up to 16% in 2019, before dropping down to 2% in 2020. Bringing this forward would have been a real incentive for ULEV adoption in UK fleets.

It's disappointing that the diesel supplement on company car tax is increasing by 1% from April and it seems that this will apply to the majority of diesel company cars registered since 1998. Large commercial fleets will no doubt breathe a sigh of relief that the measures announced on First Year VED will not be applied to LCVs, as the Chancellor pointedly made out with his reference to 'white van man and white van woman'.

The fact that this additional 1% on company car tax and the higher First Year Rate of VED coming in on new cars from April 2018 won't be applied to all diesel vehicles reflects to some extent that the Chancellor has been listening to the voices of industry who have been warning not to 'demonise' all diesels. But there's still confusion and significant detail to be clarified in terms of precisely which diesel cars are exempt and which aren't – and subsequently helping our customers and their drivers to navigate this change. The tax documentation released states that the VED and company car tax changes relate to all diesel vehicles which fail to meet a standard (Real Driving Emissions - RDE2) that is not yet in place and it's unclear how many, if any, vehicles available today actually achieve this standard.

Finally, it is reassuring to hear the commitment from the Chancellor that CO_2 tax rates will continue to be based on existing NEDC test results until April 2020 and not the new WLTP testing process. Although 2021 would have been a better date to give fleets more time, this is in line with the ULEV BIK taxation changes. This removes one of the uncertainties next year for drivers and gives business some time to prepare."