

2009 Pre Budget Report

Wednesday's Pre Budget Report (PBR) continued the recent policy of tightening taxes linked to company vehicle CO₂ emissions while extending tax breaks for electric vehicles.

The Treasury expects that the measures announced in the PBR will bring in an additional £165 million in taxes from company vehicle users in three years' time. However, fleets will be able to mitigate some of the tightening net of tax by taking advantage of rapid advances in bringing down CO₂ emissions from new cars.

The main new measures aimed at fleet operators and business drivers were changes to the company car tax CO₂ bands for 2012 and exempting electric cars and vans from company car tax for five years from 2010.

With the changes announced in this PBR, fleets have a clear view of the rules on company car Benefit in Kind (BIK) and fuel duty until April 2013 and of the Vehicle Excise Duty (VED) and free fuel benefit tax arrangements that will apply until April 2011.

Details of all these changes (including changes announced in earlier budget statements that are due come into force in 2010 and 2011) are given below.

■ Budget 2009: Fleet measures at-a-glance

Company car tax – The CO₂ emissions thresholds for company car tax bands will be shifted down by 5g of CO₂ per km from April 2012. The graduated table of bands will be extended downwards, adding new bands for 115, 110, 105, 100 and up-to-99g/km of CO₂, with the 10% rate applying to the lowest band.

Free fuel benefit tax – The fuel benefit charge multiplier will increase from £16,900 to £18,000 from April 2010.

Electric vehicles – Electric company cars and vans will be exempt from BIK tax for five years, starting next April. Businesses will also be able to claim 100% first year capital allowance on electric vans from April 2010.

■ Other related measures

Fuel Duty – As announced previously, duty on petrol and diesel will go up by 1p per litre above inflation in April 2010 and subsequent years up until 2013.

Biofuel duty – Biofuels, except those made from used cooking oil, will lose their 20p per litre duty advantage in April 2010.

National Insurance – Employer, employee and self-employed National Insurance (NI) rates will increase by 1% from April 2011.

VAT – Returns to 17.5% on 1 January 2010.



■ PBR changes in detail

Company car tax

The current system of CO₂ bands will change from April 2012. The lowest band, taxed at 10% of the vehicle benefit value, will cover cars emitting up to 99g/km of CO₂. From there, the CO₂ percentage band will rise by 1% for every additional 5g/km up to a maximum level of 35% for cars emitting 220g/km and over, as shown in the table below.

Most affected will be drivers of cars emitting just less than 120g/km in 2011. Drivers choosing sub-120g/km cars specifically for the BIK savings they offer should be made aware of the impact of the rule change if they are likely to be affected by it. Overall, the new structure is likely to encourage uptake of cars emitting less than 100g/km and it highlights the value of incorporating taxation and environmental performance into a holistic approach to running a company car fleet.

Rapid advances in vehicle efficiency are likely to bring many more low-CO₂ cars to market over the next two years. BMW's 320d ED with EfficientDynamics technology goes on sale in January at just 109g/km, and will still only incur 12% of the vehicle benefit value in 2012.

Benefit-in-kind CO₂ bands by tax year

% of P11D price	2009/10 g/km	2010/11 g/km	2011/12 g/km	2012/13 g/km
10	120	120	120	Up-to-99
11	n/a	n/a	n/a	100
12	n/a	n/a	n/a	105
13	n/a	n/a	n/a	110
14	n/a	n/a	n/a	115
15	135	130	125	120
16	140	135	130	125
17	145	140	135	130
18	150	145	140	135
19	155	150	145	140
20	160	155	150	145
21	165	160	155	150
22	170	165	160	155
23	175	170	165	160
24	180	175	170	165
25	185	180	175	170
26	190	185	180	175
27	195	190	185	180
28	200	195	190	185
29	205	200	195	190
30	210	205	200	195
31	215	210	205	200
32	220	215	210	205
33	225	220	215	210
34	230	225	220	215
35	235	230	225	220

Add 3% for diesels up to a max of 35% (2012/13 to be confirmed)



■ Fuel

Private fuel benefit

The PBR committed the Government to increase private fuel benefit tax by at least the rate of inflation each year. The multiplier used to calculate liability for private fuel benefit will rise from £16,900 to £18,000 from April 2010. Van fuel benefit will increase from £500 to £550.

Employees who continue to receive free fuel as part of an overall benefits package should regularly calculate the tax efficiency of the benefit. The Treasury expects to collect an extra £50 million in 2010 from this latest increase, and £45 million in each of the two following tax years.

Fuel Duty

Last year, the Government pledged to increase fuel duty by 0.5p above inflation every year from 2010 onwards. This was raised to 1p above inflation in the March 2009 Budget. Accordingly, fuel prices will increase by at least 1p per litre when duty goes up from 1 April next year. The Treasury expects to gain an extra £1.25 billion in 2010 and £1.75 billion in 2011 from these rises.

This return of an annual fuel price 'escalator' gives every reason for business users to keep a tight rein on fuel use and to encourage drivers to shop around for lower-priced petrol and diesel.

■ Electric vehicles

Electric cars and vans will be exempt from company car tax for five years from April 2010. Vans are due to join cars in qualifying for a 100 per cent first-year writing-down allowance, also from April 2010.

With only a small number of electric company cars on Britain's roads today, this is unlikely to prove an expensive concession for the Chancellor. The Government hopes that businesses will be encouraged to start using electric vehicles in situations where their current limited range and long recharging times are less of a drawback.

In the meantime, the Government is pressing ahead with £30 million of support for low carbon transport projects. Another £220 million will be made available after 2011 to fund incentives of up to £5,000 to persuade consumers to buy electric cars. However, the PBR made no mention of whether these incentives might be extended to fleet buyers.



■ National Insurance

All forms of National Insurance will increase by 1% from April 2011.

■ VAT

VAT, as expected, will return to 17.5% on 1 January 2010.

The combined impact of different taxes on fleet costs is complex. Total Cost of Ownership (TCO) calculations will help fleets to mitigate these impacts and make effective decisions. TCO enables businesses to compare vehicles accurately on the basis of their whole life costs, including factors affected by this PBR, such as employer's National Insurance Contributions (NIC) on drivers' BIK.



■ Vehicle Excise Duty (VED)

No new changes to VED for cars or vans were announced in the PBR. However, as announced in the 2008 Pre Budget Report, next April will see the introduction of higher first year VED rates for new cars, intended to encourage sales of cleaner models and penalise purchasers of high CO₂ models.

Cars below 130g/km will pay no VED at all in the first year.

Vehicle Excise Duty for brand new Cars: 2010-11 first-year rates

VED band	Emissions CO ₂ (g/km)	First-year rate 2010-11
A	Up to 100	£0
B	101-110	£0
C	111-120	£0
D	121-130	£0
E	131-140	£110
F	141-150	£125
G	151-165	£155
H	166-175	£250
I	176-185	£300
J	186-200	£425
K	201-225	£550
L	226-255	£750
M	Over 255	£950

The 2009-10 and 2010-11 standard rates for cars registered on or after 1 March 2001 are:

VED band	Emissions CO ₂ (g/km)	Standard rate 2009-10**	Standard rate 2010-11**
A	Up to 100	£0	£0
B	101-110	£35	£20
C	111-120	£35	£30
D	121-130	£120	£90
E	131-140	£120	£110
F	141-150	£125	£125
G	151-165	£150	£155
H	166-175	£175	£180
I	176-185	£175	£200
J	186-200	£215	£235
K***	201-225	£215	£245
L	226-255	£405	£425
M	Over 255	£405	£435

**Alternative fuel discount: 2009-10, A-I £20, J-M £15; 2010-11 onwards, £10 all cars

***Includes cars emitting over 225g/km registered between 1 March 2001 and 23 March 2006



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■ Other measures

Scrappage scheme

No extension to the scrappage scheme was announced in the PBR.

Road schemes and funding cuts

The PBR maintained the Government's commitment to press ahead with £400 million of key road schemes including widening parts of the M25, M1 and A46. All Government departments will be targeted for 'efficiency savings' as part of efforts to reduce the UK's public spending deficit, but the PBR gave no specific details of cuts affecting transport.

■ Budget summary

Although the Government has increased the tax burden by raising NICs, fuel duties and Benefit in Kind taxes, fleets and drivers can still drive down bills by adopting low carbon vehicles and environmentally-friendly policies.

The total tax differential between sub-120g/km vehicles and those over 160g/km is now considerable and is there to be leveraged by fleets. Higher prices for oil and rising duties on road fuels further underline the need to ensure that you have access to the best management tools and professional advice to help you set the right strategies to minimise fleet costs without compromising your organisation's competitiveness.

■ Further information

Budget documents: http://www.hm-treasury.gov.uk/budget/budget_08/

