ICAEW
REPRESENTATION 24/19

WORLDWIDE HARMONISED LIGHT VEHICLES TEST PROCEDURE (WLTP) AND VEHICLE TAXES

Issued 14 February 2019

ICAEW welcomes the opportunity to respond to the Review of worldwide harmonised light vehicles test procedure (WLTP) and vehicle taxes consultation published by H M Treasury on 19 December 2018.

Certainty, simplicity and ease of delivery for employers and adequate notice of any changes need to be at the heart of the outcome of this review if the company car tax system is to be used as a means of delivery.

This response of 14 February 2019 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, the Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's Ten Tenets for a Better Tax System are summarised in Appendix 1.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 150,000 chartered accountant members in over 160 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

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GENERAL COMMENTS

1. We recommend that, in arriving at the outcome of this review, the needs of employers, who have to administer the company car tax system, should be taken into account. The regime should at a minimum be ‘certain’, ‘simple’ and the tax ‘easy to collect’, as set out in Tenets 2, 3 and 4 of our Ten Tenets for a Better Tax System by which we benchmark changes to the tax system (summarised in Appendix 1), with adequate notice being given for any changes.

2. To help achieve this, we suggest that the following are taken into consideration when deciding how to balance the different factors when considering changes to vehicle excise duty (VED) and company car tax on the introduction of worldwide harmonised light vehicles test procedure (WLTP) (see Question 3):

    a) Employers need certainty as soon as possible on the 2020/21 values for vehicles, in particular ultra-low emissions vehicles (ULEV). Leases have already been taken out in the expectation that for low emission cars with a good mileage range the tax charge could drop from 16% to 5% from 2019/20 to 2020/21.

    b) Company car leases are often for a four-year term so it would therefore be helpful if at least five years notice could be given for any major changes to the structure of company car taxation. This would be fairer both to employees and to employers, who would otherwise suffer a potential large increase in tax and NIC under a commitment they are unable to cancel under the terms of the leasing contract.

    c) As far as possible, any new regime must be future proofed to avoid unexpected impacts on employer budgets and employee tax bills.

    d) Some employers have stopped providing company cars and have substituted cash because they perceive that company car tax rates are now too expensive following the optional remuneration arrangements (OpRA) changes. These changes have already added complexity and expense for business. However, the corporate social responsibility (CSR) benefit of a low emission fleet is still important to those large businesses which have retained cars.

    e) The impact of model-specific emissions values will add complexity as it would give rise to two-tier and pre and post-April 2020 systems. Making it more difficult to quantify values may discourage more employers from providing company cars and those that do from adopting payrolling of company car benefits-in-kind (BiK).We agree that, due to the variety of models, it is not practical to have a combination of adjustments that would return every car to its original tax position.

    f) As the change is generated by a change in testing and not a change in real emissions, the Government should adjust the company car bands/percentages so that there is no increase in the tax raised from the taxation of company cars. Any extra adjustment that the Government wishes to make for policy reasons should then be highlighted separately so that taxpayers can understand the reason for the changes.

    g) The differential in the private fuel reimbursement rate set within the advisory fuel rates (AFR) for diesel and petrol cars appears to have failed to discourage the take up of diesel cars by many employees because diesel fuel costs are lower per mile than petrol. Employees tend to see that as a direct bottom line cost when they reimburse private fuel monthly to employers.

3. Members have reported that those who benefit from the discounts afforded to hybrid cars seldom drive them using electricity as there are insufficient public charging points and the range is too low for most business users. The availability of charging points is likely to be a significant factor in deciding which type of car to choose.

4. Employers would welcome simplicity (see Question 4), but this will not be easy to achieve if there is a two tier (ie, pre and post April 2020) and model-specific tax system. As noted

above, making company car tax more expensive and more complex discourages employers from providing company cars and, for those that do, from payrolling company car BiK.

ANSWERS TO CONSULTATION QUESTIONS

Chapter 2: Impact of WLTP

Question 1: The government is interested in gathering further data on the impact of WLTP on reported CO2 emissions for conventionally fuelled cars. What evidence can you provide on the differences between NEDC and WLTP reported figures for similar models of cars?

5. No comment.

Question 2: What further evidence can you provide on the impact of WLTP on reported CO2 emissions and zero emission mileage for ULEVs?

6. No comment.

Chapter 3: Considerations for changes

Question 3: How should the government balance the factors (a-e) outlined when considering whether to introduce changes to VED and company car tax on introduction of WLTP?

7. Please see our General Comments above.

Question 4: Do you agree that, if the government makes changes to the vehicle tax system, the adjustment should be simple? If not, why?

8. Yes. Please see our General Comments above.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see https://goo.gl/x6UjJ5).