# Submission

## to

# HM Treasury

## for the

# Budget 2016


**Submission from:**

***The British Vehicle Rental and Leasing Association (BVRLA)***

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## About the Industry

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## About the BVRLA and its members

- Established in 1967, the British Vehicle Rental and Leasing Association is the UK trade body for companies engaged in the rental and leasing of cars and commercial vehicles. Its members operate a combined fleet of 4.5 million cars, vans and trucks.
- BVRLA members buy nearly 50% of all new vehicles sold in the UK, an estimated 1 million vehicles (including 308,000 UK-made vehicles) per annum.
- Collectively, members of the BVRLA support around 317,000 jobs and contribute over £24.9 billion to the UK economy each year.
- Through its members and their customers, the BVRLA represents the interests of over 2 million business car drivers and 10 million people per year who choose to rent a vehicle.
- As well as informing the Government and policy makers on issues affecting the sector, the BVRLA regulates the industry through a mandatory code of conduct, helping its members deliver safe, sustainable and affordable road transport to millions of consumers and businesses. For more information, please visit www.bvrla.co.uk.

## Executive Summary

The British Vehicle Rental and Leasing Association (BVRLA) welcomes the opportunity to contribute a submission ahead of the 2016 Budget.

The UK vehicle rental and leasing sector continues to be a major contributor to the UK economy, purchasing an estimated 1 million vehicles (including 308,000 UK-made vehicles) per annum[1], generating £24.9 billion in gross value added for the UK economy and employing 53,600 people. As a result of the total activities supported by the UK rental and lease sector in 2013, the Treasury received a total £3.4 billion in total tax revenue[2].

As the representative body of a major tax contributing sector, the BVRLA understands the importance of taxation, especially in the years following the Global Financial Crisis, and in meeting the subsequent challenge laid down by the Chancellor of reducing the national deficit. However, we are concerned at the unfair tax burden on our sector, and believe that the vehicle rental and leasing sector has been disproportionately hit with a higher tax burden than other industries.

In particular, the BVRLA is concerned at the cumulative effect of a series of tax increases on individuals who have chosen to take a company car as part of their work package. Taking into account both the 2% increase in Company Car Tax from 2017-18, announced at Budget 2014, and the delay in removing the 3% diesel supplement on company car tax from April 2016 to April 2021, announced at the 2015 Autumn Statement, the average company car[3] will cost an additional **£626.94** in 2017-18 (a 15.43% increase), and a **£882.26** in 2018-19 (a 21.71% increase), compared to 2013-14. Alternatively, this represents a rise per company car of **16.26%** in 2017-18 and **22.88%** in 2018-19, since the Chancellor took office. These figures

[1] These vehicles are regularly replaced and sold on to the aftermarket, according to the part of the sector they occupy. Rental vehicles typically remain part of a member's fleet for a period of between 4-6 months, after which the vehicle will be sold to a private owner. Leased cars are typically operated on thirty-six month leases after which the vehicle will again be sold on to the aftermarket.

[2] The Economic Impact of the Motor Vehicle Full-Service Leasing and Renting Sector (Oxford Economics, November 2014) at: http://www.bvrla.co.uk/sites/default/files/documents/economic_impact_of_the_rental_and_leasing_sector.pdf

[3] Revenues of the additional 2% Company Car Tax spread across 940,000 current drivers, and the 3% diesel surcharge spread across 740,000 current drivers.

also represent a best-case scenario, as they are based on the assumption that the number of company car drivers in the UK – which has diminished by 30,000 since 2010 (a 3% drop), and 10,000 from the previous recorded year – does not diminish any further.

In particular, the effect of the Chancellor's announcement at the previous Autumn Statement to delay the well-signalled removal of the 3% diesel supplement on company car tax from April 2016 to April 2021 will generate an additional **£1.36 billion** over the next five years. As there are currently 740,000 out of a total 940,000 company car drivers who have opted to take a lower emission diesel car, this decision will financially penalise around 4 in 5 company car drivers, due to the shortcomings of some manufacturers and the vehicle testing regime. The BVRLA believes this to be both unfair, and risks many employees deciding to give up their company cars altogether, and opt for an older, privately-owned vehicle, which will not be built to the same safety and emissions standards. This also sets an unfortunate precedent for punishing innocent drivers for decisions made on the basis of published tax rates.

Similarly, as a further consequence of the drop in company car drivers, there has been a one fifth reduction in the number of claimants of company car fuel, from 270,000 in 2009-10 to 200,000 in 2013-14. This has led to a drop in tax revenue to the Treasury of £100 million (a 29.5% reduction), though recipients are now paying an additional £589 on average, a rise of 18.9%. Again, we are concerned that the additional tax burden risks putting off employees from taking company cars, and instead using older, higher emission cars for business travel. As well as the reduced environmental benefits, this shift will also jeopardise the sales of and associated tax take on the newest vehicles, which of course are built to the latest and safest standards. Since around one fifth of company car drivers are paid salaries of under £30,000, we also believe that the steady increase on taxes associated with company cars could make this an unattractive option for all employees, and particularly the lower paid. The loss of First Year Allowances on leased also amounts to a further financial disincentive for employees considering taking a company car.

The principle canons of tax policy are that it should be equitable (fair), certain (knowing in advance how much must be paid), and convenient (the mode and timing of tax payment should be as far as possible, convenient to the tax payers). The BVRLA believes that these principles are not being achieved, and respectfully requests the Chancellor to reconsider the current system and levels of company car taxation in the light of the evidence presented below, as part of the upcoming Budget and in future changes to the tax system.

Finally, the BVRLA would also like to place on record our concern at the rising levels of deaths and serious injuries on UK roads – increases in 2014 of 4% and 5% respectively. To address this unwelcome rise, we would like to recommend a financial incentive to the take up of vehicle safety technology which can be proven to reduce both accidents and the severity when these occur. For example, Thatcham Research has estimated that if a £500 incentive was offered for those choosing to buy a car with Autonomous Emergency Braking (AEB) fitted, this could reduce road casualties by 136,000 over the next ten years. Not only would this ensure UK roads remain among the safest in the world, this would also reduce accident congestion and resulting emissions, as well as the loss of economic activity as a consequence.

The BVRLA welcomes the opportunity to contribute to this process, and will be happy to provide further evidence if requested.

## Statistical summary

### Emissions standards

In 2015, the average emission level for a newly registered car was 122.1g $CO_2$/km. In comparison, the average emissions level for a BVRLA lease car was 117.8g/km, and 112.6 for a newly delivered lease car.

### Company Car Tax

- Approximately one fifth (19.15%) of company car drivers are paid under £30,000 p.a.
- Since the Chancellor took office, Company Car Tax has risen by an average **£204** per recipient per annum (5.19%), or **£264** (6.5%) since 2011-12.
- Company Car drivers have fallen from 970,000 in 2009-10 to 940,000 in 2013-14.
- Following the 2% increase in Company Car Tax announced at Budget 2014, this will cost an additional **£255.32** per recipient in 2017-18 and **£510.64** in 2018-19, a 6.28% rise in 2017-18 and 12.57% in 2018-19 compared to 2013-14, or respective rises of 6.62% and 13.24% since the Chancellor took office.
- Taking into account both the 2% in Company Car Tax from 2017-18 and the continuation of the 3% diesel surcharge, the average diesel company car will cost an additional **£626.94** in 2017-18 (a 15.43% increase), and a **£882.26** in 2018-19 (a 21.71% increase), compared to 2013-14. Alternatively, this represents a rise per diesel company car of 16.26% in 2017-18 and 22.88% in 2018-19, since the Chancellor took office – if the number of company car drivers do not diminish any further.

### Salary sacrifice

- The total average tax revenue per salary sacrifice car is **£4,508.11**, taking into account Vehicle Excise Duty, Company Car Tax, and Class 1A NICs and Value Added Tax, plus the original car registration fee in the first year, plus disposal at the end of the lease.
- As the the BVRLA estimate that there are currently around 60,000 cars operated under salary sacrifice arrangements in the UK, this translates as an overall estimate of **£270,486,600** received by HMRC in tax revenue from salary sacrifice company car arrangements. This figure includes an estimated **£229,913,610** of salary sacrifice schemes for those employees in the 20% tax band.

## Summary of recommendations

The BVRLA offers the Government the following recommendations in respect of business car taxation:

- Carry out a wholesale review of the current system and levels of company car taxation, recognising the benefits of company cars in terms of reduced emissions and revenue to HM Treasury.
- Abolish the 3% diesel supplement on benefit in kind tax bands for Euro 6C cars from 2016.
- Reform the benefit-in-kind (BIK) ratings, with greater granularity on incentives for the take-up of lower emission vehicles.
- Allow leased vehicles to be eligible for First Year Capital Allowances.
- Introduce a new tax category for electric vehicles (EVs) where these are taxed on the basis of the length of range (miles travelled before requiring a recharge).
- Provide in-life incentives to the ultra-low emission vehicles to grow confidence in the (still currently embryonic) second-hand market. This is key in ensuring the roll-out of ULEVs, particularly EVs.
- To not erode the benefits of company salary sacrifice arrangements.
- Provide incentives to the fitment of vehicle safety technology which has a demonstrable effect on road casualties, such as Autonomous Emergency Braking.

## Areas of interest

Company Car and Company Fuel Tax

According to available data from HMRC[4], there has been a steady diminution over the past ten years in the number of company car tax drivers, though the taxable revenue per recipient has steadily increased. The number of recipients of company car fuel has also diminished, with the total tax revenue consequently being reduced by 29.5%.

| Year | Company car | | | Company car fuel | | |
|---|---|---|---|---|---|---|
| | Company car drivers (thousand) | Total tax revenue (£million) | Taxable revenue per recipient | Company car fuel recipients (thousand) | Total tax revenue (£million) | Taxable revenue per recipient |
| 2005-06 | 1,140 | 4,130 | £3,623 | 380 | 1,050 | £2,763 |
| 2006-07 | 1,160 | 4,030 | £3,474 | 360 | 970 | £2,694 |
| 2007-08[5] | 1,120 | 4,060 | £3,625 | 340 | 900 | £2,647 |
| 2008-09 | 1,010 | 3,840 | £3,802 | 300 | 950 | £3,167 |
| 2009-10 | 970 | 3,740 | £3,856 | 270 | 840 | £3,111 |
| 2010-11 | 950 | 3,660 | £3,853 | 250 | 810 | £3,240 |
| 2011-12 | 950 | 3,610 | £3,800 | 240 | 770 | £3,208 |
| 2012-13 | 940 | 3,730 | £3,968 | 220 | 770 | £3,500 |
| 2013-14 | 940 | 3,820 | £4,064 | 200 | 740 | £3,700 |

Since the Chancellor took office in 2010, Treasury revenue from company car tax has increased by £80 million. In the same timeframe, company car tax has risen by £204 per recipient (5.19%) on average. Perhaps as a result of this increasing tax burden, the number of UK company car drivers has fallen by 30,000. In the same timeframe, the number of recipients of company car fuel have decreased by approximately 70,000, with a resulting loss of £100 million in tax revenue. However, company car fuel tax has increased by £589 per recipient, a rise of 18.9%.

In addition, a further 2% increase in Company Car Tax was also announced at Budget 2014, to come into force in 2017-18, with Treasury revenue estimated at £240 million in 2017-18,

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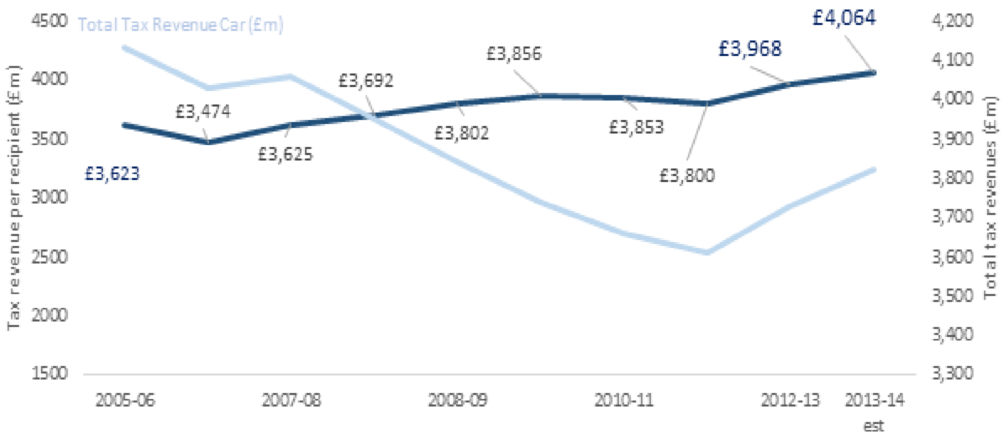
[4] HMRC; Taxable benefits in kind: Recipients, taxable value and income tax and NICs liability, by category, 2005-06 to 2013-14, at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/456660/Table_4_5_2005-06_to_2013-14.pdf

[5] Basis of calculating company car drivers and car fuel recipients converted to the new basis.

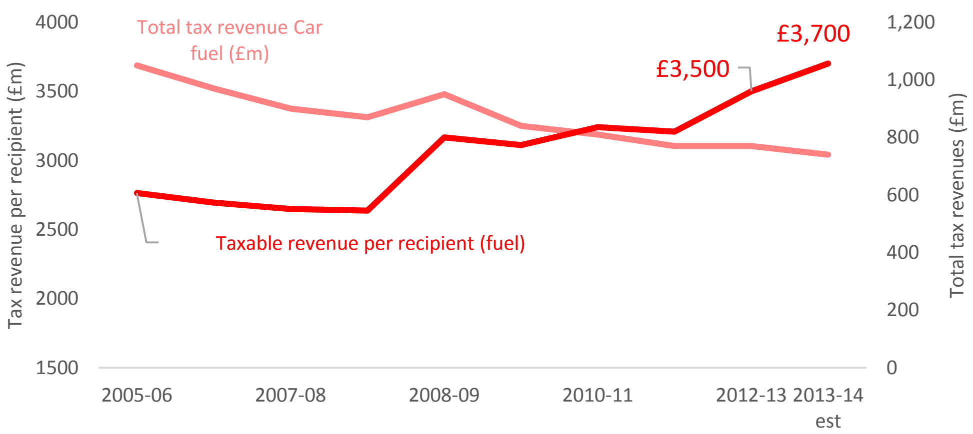
and £480 million in 2018-19[6], as a result. This increase will therefore cost an additional £255.32 per recipient in 2017-18 and £510.64 in 2018-19 – without taking into account the continuing diminution in the number of employees choosing to take a company car. These rises amount to an additional 6.28% rise in 2017-18 and 12.57% in 2018-19 from the most recent figures, or respective rises of 6.62% and 13.24% since the Chancellor took office.

**Graph 1: Company Car Tax, 2005-06 to 2013-14**




The above results therefore demonstrate that as company car tax increased up until 2011-12, the total tax revenue went down as employees gave up their company cars. Following this period, company car tax has risen dramatically to stabilise revenue, leading to a further 10,000 employees giving up their company cars, and the individual tax burden increasing by 6.5%, or £264 per employee.

**Graph 2: Company fuel tax, 2005-06 to 2013-14**




[6] HM Treasury; Budget 2014 document, p.57 at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293759/37630_Budget_2014_Web_Accessible.pdf

Similarly, company fuel tax has also risen, most dramatically in 2007-08, and with a further steady increase since 2011-12. This continuous increase has stabilised the decline in total tax revenue to the Treasury, but has resulted in an increase of £492 per recipient, a 15.34% rise.

The individual effect of increases in company car and company fuel tax

In quantifying the above statistics, the BVRLA has calculated the impact of the increase in the company car and company fuel tax burden on individual employees according to data provided by HMRC[7]:

| **Total income (lower limit)** | Car | | Car fuel | |
|---|---|---|---|---|
| | Company car drivers (thousands) | Company Car taxable value (£ millions) | Recipients (thousands) | Taxable value (£ millions) |
| 0-£30,000 | 180 | 390 | 30 | 55 |
| £30,001-50,000 | 370 | 1310 | 80 | 270 |
| £50,001+ | 370 | 2020 | 110 | 440 |
| **TOTAL** | **940**[8] | **3730** | **220** | **770** |

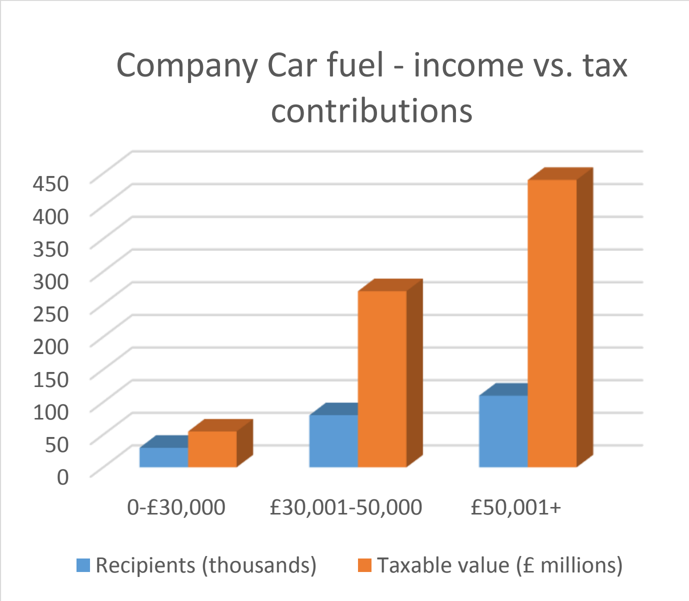
As the above table demonstrates, approximately one fifth (19.15%) of company car drivers are paid under £30,000 per annum. Their combined tax contribution was just over 10% (10.46%) of total company car tax receipts for 2012-13. Company car drivers paid between £30-50,000 per annum make up 39.36% of the total company car tax revenue for the same period, paying 35.12% of total company car tax receipts. Finally, the upper-end of company car tax drivers, those paid £50,000 and above, also make up 39.36% of the total, and pay 54.16% of HM Treasury's total company car tax revenue.

In terms of company fuel tax, company car drivers paid under £30,000 per annum make up 13.64% of all recipients of company-paid fuel, which accounts for 7.14% of tax revenue for this. Drivers paid between £30-50,000 make up 36.36% of the total, and account for 35.07% of the total tax company fuel tax revenue. For drivers paid above £50,000, who account for

[7] HMRC; Taxable benefits in kind: Analysis of company cars, employer-provided fuel and private medical insurance, by range of total income, 2012-13, at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/456556/Table_4_3_2012-13.pdf

[8] Numbers and amounts less than 10 are rounded to the nearest 5; those greater than 10 are rounded to the nearest 10. As a result, the column totals may not equal the sum of individual components due to rounding.

approximately 50% of the total, these account for 57.14% of total company car fuel tax revenue.




From the above figures, the BVRLA believes that the Government could increase greater revenue if it attracted more employees to take up a company car. As well as increasing options for business, much of which requires the flexibility of a company car, providing incentives for employees to take up a company car can also provide a welcome boost for the sale of these cars, around a third of which are manufactured in the UK[9].

A further benefit of encouraging the take-up of company cars is bringing greener and safer cars on to UK roads. As BVRLA members' vehicles are brand new and built to the environmental standards, they are typically cleaner, greener and produce lower emissions (including $CO_2$, $NO_X$ or particulates) than the average vehicle on UK roads[10], which is older and with a higher level of emissions. In Q2 2015, the average emission level for a newly registered car was 122.1g $CO_2$/km. In comparison, according to the BVRLA's most recent quarterly survey of member fleets[11], the average emissions level for a BVRLA lease car was 117.8g/km, and 112.6 for newly delivered lease cars.

[9] The Economic Impact of the Motor Vehicle Full-Service Leasing and Renting Sector (Oxford Economics, November 2014) at: http://www.bvrla.co.uk/sites/default/files/documents/economic_impact_of_the_rental_and_leasing_sector.pdf

[10] According to the SMMT report, "Motor Industry Facts 2015", the average car on UK roads that year is 7.8 years old; p.26 at: http://www.smmt.co.uk/wp-content/uploads/sites/2/100049_SMMT-Facts-Guide-2015_UPDATES.pdf

[11] BVRLA Quarterly Leasing survey – fleet $CO_2$ emission trends, at:

The offer of a company car is particularly attractive to lower-paid employees, as this represents an opportunity to drive a safer and more fuel efficient new car. The risk in increasing further the tax obligations for such drivers is that they are likely to give up their company cars and use instead their own, older vehicles, which do not conform to the same safety or emissions standards.

The 3% diesel supplement

The BVRLA is concerned at the effect of the Chancellor's announcement at the previous Autumn Statement to delay the anticipated removal of the 3% differential between diesel and petrol cars from April 2016 to April 2021. We appreciate the importance of ensuring confidence in the emissions performance of new vehicles following the unscrupulous behaviour of some manufacturers, and to allow further time for the introduction of new and further EU emissions testing procedures.

We note that retention of the diesel supplement is calculated to increase Treasury revenue by £280 million in 2016-17, falling to £275 million in 2017-18 and 2018-19, and £265 million in both 2019-20 and 2020-21[12], a total of £1.36 billion. Payment of these figures will therefore fall upon the 740,000 (out of a total 940,000) company car drivers who have opted in good faith to drive a lower emission diesel car over a petrol one, at least partly on the basis of the Chancellor's announcement in 2012 that the supplement would be lifted in 2016. In addition to Company Car Tax, this will amounts to further payments per average diesel company car of £378.38 in 2016-17, £371.62 in both 2017-18 and 2018-19, and payments of £358.11 in both 2019-20 and 2020-21. These additional payments represent an unexpected charge, based on the Chancellor's previous assertion, and a penalisation of those drivers who have acted fairly, to balance the actions of those organisations that have acted irresponsibly.

http://www.bvrla.co.uk/sites/default/files/documents/bvrla-news-issue/bvrla_news_septoct_2015.pdf

[12] Autumn Statement 2015; Energy, environment and transport, p. 112, at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU1865_Web_Accessible.pdf

Combining these figures with the 2% increase in Company Car Tax announced at Budget 2014[13] to come into force in 2017-18, the Treasury will receive additional company car tax revenue of £515 million in 2017-18, and £550 million in 2018-19. However, this translates to an additional £626.94 per recipient taking a company diesel car in 2017-18, and a £882.26 in 2018-20, once again assuming that the diminishing number of company car drivers remains unchanged. Therefore, these additional charges amount to a total 15.43% rise in 2017-18 and 21.71% in 2018-19 from the most recent figures, or respective rises of 16.26% and 22.88% since the Chancellor took office, per diesel company car.

Such a sharp cumulative rise is unfair to these employees, many of whom have opted to drive some of the newest, safest, most fuel-efficient vehicles with the lowest emission levels. This also represents a further disincentive against the take-up or retention of company cars by employees. We further believe this decision will further risk many employees deciding to give up their company cars altogether, in favour of personal contract hire or more likely, older, privately owned, higher emission vehicles.

In order to limit this potential future effect, and maintain both the confidence of company car employees in both the consistency of the tax system and in the emissions testing regime, the BVRLA proposes that when employees select an early adoption vehicles as a company car, ahead of the upcoming Euro Standard 6C, the 3% diesel surcharge should be waived. This will provide a real incentive to employees to take up cars with the most advanced emissions standards, and a welcome encouragement to the company car regime.

## Benefit in Kind ratings

In order for Government to sustain the current level of company car tax revenue while simultaneously reducing the tax burden on company car drivers, we recommend that the Government consider a reform of the benefit-in-kind (BIK) ratings, with greater granularity on the ratings of vehicles which are at the lower category end.

[13] HM Treasury; Budget 2014 document, p.57 at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293759/37630_Budget_2014_Web_Accessible.pdf

As the current ratings system demonstrates[14], petrol vehicles at the lower category end (vehicles with an emissions rating of between 1-50g $CO_2$/km) are currently given a rating of 5% – identical to that of zero emission vehicles – with diesel vehicles attracting an 8% rating. By introducing greater granularity for vehicles with emissions levels between 1-50g $CO_2$/km, mirroring the remaining ratings system by increasing exponentially the rating per every 5g $CO_2$ emitted by the vehicle, this will provide a greater incentive for employees to drive the greenest car possible, and therefore promote the take up of lower (if not ultra-low) emission vehicles over slightly higher emission ones.

The BVRLA believes that reforming the benefit in kind ratings in this way would provide the opportunity for the Government to relieve the current tax burden on company car drivers. However, we would caution the Government to ensure that any future change to the ratings system is tax-neutral, in order to sustain consumer confidence in the company car market.

First Year Capital Allowances

The Government's previous decision to withdraw First-year Capital Allowances (FYAs) – deductions made from a company's corporation tax in respect of the purchase of certain assets – from leased and rental cars discriminates in favour of cash-rich businesses which are able to purchase vehicles outright, over SMEs that rely on lease arrangements to access new cars for business use. The removal of FYAs also serves as a disincentive for operators to access lower emitting vehicles with higher operational costs – for example, it makes little sense for an operator to lease an electric car, rather than purchasing an older, higher emission one outright.

The BVRLA is also concerned that the withdrawal of FYAs could have an effect on the take-up of cleaner, greener cars – a point which has been identified by Government officials and other market commentators as rental/leasing being the most likely route for companies to use as early adopters of the latest, safest, cleanest and greenest automotive technology (or in the case of rental, a "try before you buy" environment). A reversal of this position by HM Treasury

[14] Current and projected BIK ratings at: HMRC; Taxable Benefits in Kind and expenses payments: Company Car Tax rules 2005-06 to 2016-17, at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/356654/TC2b.pdf

would ensure that UK firms relying on leasing and rental to support their business are not directly penalised. We understand that officials within HMRC have confirmed a potential policy measure which could be implemented to address concerns with cross-border leasing.

Electric Vehicles

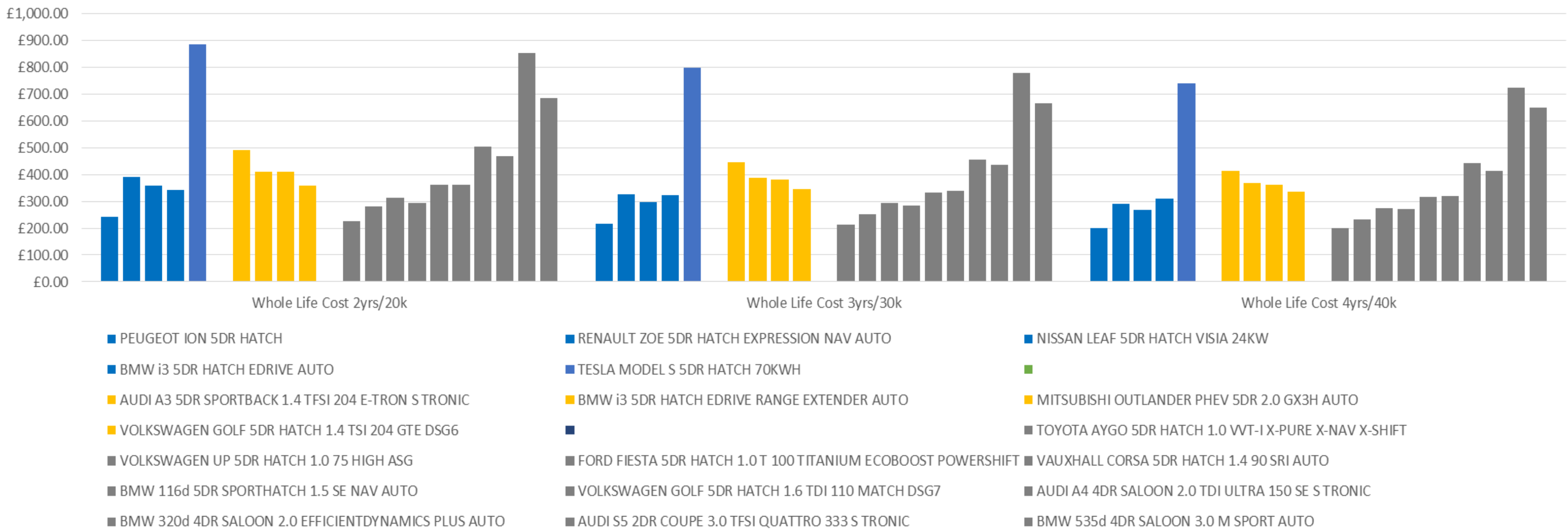
The BVRLA welcomes the rise in ultra-low emission vehicles, particularly in the last twelve months, which has seen 28,188 new ULEVs on UK roads. We particularly welcome the growth in Electric Vehicles (EVs), and endorse the Government's objective that every new UK car and van will be ultra-low emission by 2040, and virtually every car and van zero-emission by 2050.

However, we are concerned by research which has been provided by a leading BVRLA member, which suggests that while Electric Vehicles are an attractive option on the basis of whole life cost (WLC), there is still a significant issue in terms of the range (i.e. number of miles travelled before requiring a recharge) of such EVs not being able to match those of an internal combustion engine (ICE). A further point to consider is that while plug-in electric vehicles which offer the greatest ranges are generally the most costly on a WLC perspective. There are also a number of hybrid vehicles that many drivers are likely to drive on ICE without the need or desire to drive electric, thereby taking advantage of the electric grant and low Benefit in Kind tax.

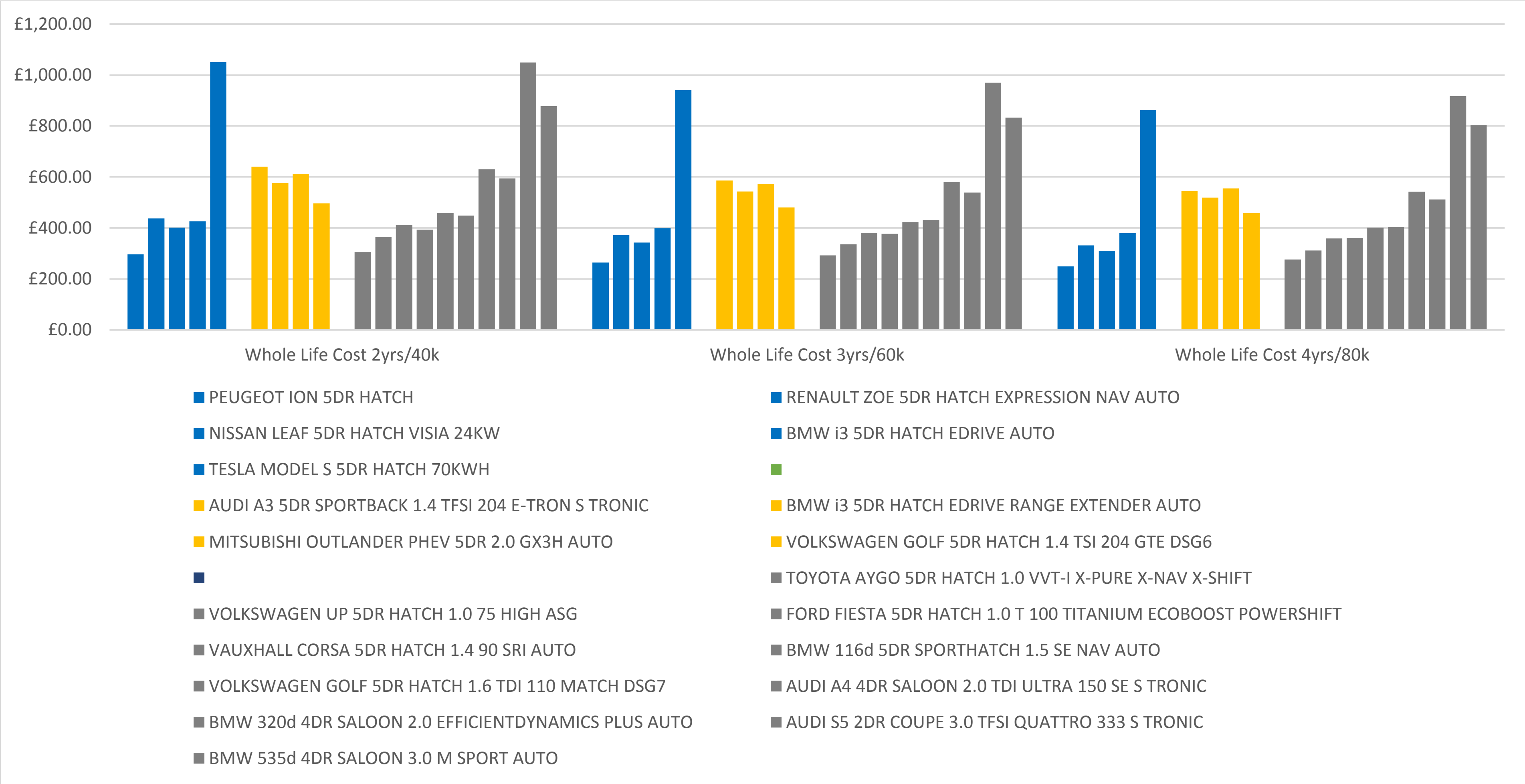
The comparisons between Pure Electric, Plug in Hybrid and Internal Combustion Engine (ICE) are presented below[15]:

[15] Our member has provided comparisons up to 20,000 miles per annum (around 80 miles per day) on the basis that anything over this is likely to make electric more difficult to put into practicable use. Ironically, although the pure electric is more likely to show a saving at a higher mileage, range anxiety makes it less likely this will be the choice. At the lower mileage comparison (10,000 miles per annum) there is always an ICE vehicle that has a WLC as low as pure electric.

Graph 3: Whole Life cost comparisons – Pure electric, plug-in vehicles, and internal combustion engines – 10k miles per annum



**Graph 4: Whole Life cost comparisons – Pure electric, plug-in vehicles, and internal combustion engines – 20k miles per annum**



The first graph reveals that for drivers doing around 10,000 miles per annum, the least efficient pure electric vehicle, the Tesla Model S, is considerably more expensive across an average three-year lifespan than either a hybrid or ICE vehicle. Similarly, while the next least efficient pure electric vehicle, the Renault Zoe, is around £100 less expensive in the first year compared to the best performing hybrid (the Audio A3), it is either more or equally expensive than around half the identified ICE cars, both in the first year and across a three year lifespan.

The second graph demonstrates that for drivers doing 20,000 miles per annum, the least efficient pure electric vehicle is still the Tesla Model S, costing considerably more than any hybrid or ICE vehicle, both in the first year and across the three-year lifespan. All other pure electric vehicles demonstrate a superior economy than hybrid vehicles, but a comparable performance to ICE vehicles, particularly in the third and final year.

To ensure the greatest adoption of electric vehicles, the BVRLA recommends that HMRC introduce a new tax category for EVs where these are taxed on the basis of the length of range – so for example, an EV with a 50 mile range would receive a lower BIK rating than one with a 70 mile range. In mirroring the three categories of the plug-in car grant, administered through the Office for Low Emission Vehicles (OLEV), this will both provide consistency and incentivise greater economy in EVs. Once again, in considering any changes to the tax system we urge HM Treasury to ensure that any new system of taxation should be tax-neutral to prevent any removal or jeopardisation of the current incentive toward the take-up of EVs.

## Other emissions initiatives

The BVRLA welcomes the measures recently announced as part of the Go Ultra Low City Scheme[16]. Many of these measures have previously been recommended by the BVRLA, including bus lane access for ultra-low emission vehicles (ULEVs); free, preferential or discounted parking for ULEVs; and Low Emission Zones throughout the UK.

[16] Department for Transport; details of the Go Ultra Low City Scheme at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/386854/141211_City_Scheme_Guidance_Final.pdf

However, we believe that a national approach is required to both increase availability of charging points for electric vehicles, and in order to develop and provide guidance to city and regional authorities considering the introduction of a Low Emission Zone. This will ensure consistent standards across Zones, certainty (in terms of the permanence or fixed term nature of such Zones), and with sufficient notice ahead of their introduction, in order to both allow fleet operators to make vehicle purchase decisions without unnecessary financial penalties and provide confidence to the aftermarket.

Salary sacrifice

The BVRLA notes the reference to salary sacrifice arrangements in the previous Budget, that the Treasury will "actively monitor the growth and development of salary sacrifice schemes and their effect on tax receipts, and will look to consult on proposals to amend the legislation around these if the Treasury believe that these have an excessive cost to the taxpayer".

The BVRLA's position is that as well as providing choice and flexibility for road users, salary sacrifice schemes provide a positive tax contribution to the Treasury, particularly through encouraging sales of new cars to be driven by employees in the lowest tax bracket (i.e. those who would be unlikely to purchase a new car otherwise). This position is summarised in the BVRLA's response to the HM Treasury consultation on remuneration practices, in which we include a case study based upon 2013 sales data provided by one BVRLA member. This case study revealed the following results:

- 84.3% of salary sacrifice arrangements were with employees in the 20% tax band, i.e. whose salaries were under £32,010; 14.6% in the 40% tax band; and the remaining 1.1% in the 45% tax band
- Based on the sales data provided by this leasing company, the total estimated first year revenue to HMRC from direct taxation of salary sacrifice cars in 2013 was **£3,370,710.79** and **£11,695,742.23** across thirty-six months (the average length of a full leasing arrangement) – this takes into account the total Vehicle Excise Duty, Company Car Tax, registration fees, employer Class 1A National Insurance Contributions 13 (NICs) and Value Added Tax across all salary sacrifice arrangements considered.

- Based on the above figures, we calculate that the total average financial contribution to HMRC (through Vehicle Excise Duty, Company Car Tax, and Class 1A NICs and Value Added Tax, plus the original car registration fee in the first year) per salary sacrifice car will be **£1,115.76** in the first year and **£3,279.55** across the length of a thirty-six month salary sacrifice lease arrangement.
- In addition to the above, we calculate that the additional VAT from the disposal of the car at the end of the lease (taking an average residual value of 40% of a company car's original P11D value) would equate to a further average VAT payment made to HMRC of **£1,228.56** per salary sacrifice car. Taking this into account, the total average revenue to HMRC per salary sacrifice arrangement is **£4,508.11**.
- As the BVRLA estimate that there are currently around 60,000 cars operated under salary sacrifice arrangements in the UK, this translates as an overall estimate of **£270,486,600** received by HMRC in tax revenue from salary sacrifice company car arrangements.
- Taking this case study as representative of the salary sacrifice market, if the figure of 84.3% of salary sacrifice company car schemes are made up by employees in the 20% tax band, the total estimated revenue to HMRC from salary sacrifice schemes by employees in the 20% tax band per thirty-six month cycle is **£229,913,610**.

The above figures amount to significant tax contributions to HMRC, the largest of which has come from salary sacrifice arrangements with employees in the lowest tax band. This is significant for three reasons – firstly, this reinforces the view that that overwhelming majority of employees taking a salary sacrifice car will not previously have had access to a brand new car. Secondly, the data suggests that abolishing or adding further taxation to such salary sacrifice arrangements would disproportionately impact the lowest paid (i.e. those paying 20% income tax). Finally, by extension, this would also suggest that these cars are unlikely to have been purchased by the leasing company in the absence of salary sacrifice schemes, since these employees are unlikely to have had the financial means to buy privately. For this reason, the last figure of £229,913,610 represents a combined tax contribution to HMRC which would unlikely have been made in the absence of salary sacrifice arrangements.

The BVRLA therefore urges HM Treasury not to erode the availability of salary sacrifice arrangements on cars, given the benefits to employers, employees (especially those lower paid), and to HMRC.

## Fuel duty

The BVRLA believes that one of the strongest contributors to economic growth in both the rental and leasing sector and in other UK business sectors provided by the previous Government was the decision to freeze fuel duty from 2013. At a time when British businesses are still recovering from the global recession, we believe that fuel duty should remain frozen, which would provide both consistency and confidence to industry. We would welcome a commitment from the Chancellor at the upcoming Budget that fuel duty would remain frozen for the foreseeable future.

## Road and vehicle safety

Finally, the BVRLA recommends that HM Treasury consider the incentivisation of vehicle safety technology which have been proven to reduce both accidents and the severity when these occur.

According to data published by the Department for Transport, road accidents have steadily diminished since 1997[17], with both serious and slight injuries also being reduced, and fatalities showing a steady reduction. However 2014 saw an unwelcome increase, not only in overall road accidents, but also deaths and serious injuries as a result. According to the most recent report carried out by the Department for Transport into Reported Road Casualties[18], there were 1,775 reported deaths and 22,807 serious injuries in 2014 – an increase of 4% and 5% respectively[19]. For this reason, the BVRLA wishes to consider current technologies aimed at reducing these accidents in order to provide the greatest level of protection to its members' customers and other road users.

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[17] Department for Transport; *Reported personal injury road accidents, by severity, Great Britain, 1979-2013*; at: https://www.gov.uk/government/publications/reported-road-casualties-great-britain-annual-report-2013

[18] Department for Transport; *Reported road casualties Great Britain: annual report 2014*; published 24 September 2015 at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/463350/rrcgb2014-00.pdf

[19] It is important to note that the report also emphasises the fact that traffic levels increased by 2.4% in the same timeframe, as well as the impact of weather on the overall number – according to the authors of the report, there would have been 43 fewer fatalities if temperature and rainfall had been similar to the long term average, which would have reduced the increase in fatalities since 2013 to 1%. However, even taking this into consideration the final figures still represent an increase in both total accidents and in terms of road fatalities or serious injuries.

To address these, the BVRLA recommends the Government consider incentivising the adoption of in-vehicle technology which can be proven to reduce both accidents and the severity when these occur. The main technology demonstrating improvement of both is Autonomous Emergency Braking (AEB) which according to the motoring industry research group Thatcham Research[20], works using technologies such as radar, lasers and optical sensors to identify other vehicles and pedestrians, AEB automatically applies the brakes if the driver does not respond in time, to avoid or mitigate a collision. AEB is most effective at lower speeds (under 25 mph, where over three quarters of accidents occur), and has been demonstrated to reduce such accidents by around 20%, as well as mitigating the effects of higher speed crashes.

Given the benefits outlined, the BVRLA believes that the Government should further encourage the take-up of AEB. Thatcham Research has estimated that 136,000 casualties could be saved over the next 10 years if the Government were to offer a £500 incentive for those choosing to buy a car with AEB fitted. Alternatively, we propose that individuals be able to claim the cost of AEB fitment against company car tax. Implementation of either proposal would both improve safety in new vehicles, and assist the emerging technology to reach the aftermarket, and be seen as an important technology for all fleets. Consequently, this would not only significantly reduce road casualties and ensure UK roads remain among the safest in the world, but as a result would reduce accident congestion, and resulting emissions.

## Closing comments

The BVRLA welcomes the opportunity to provide its experience, and that of its members, and hope that this submission is beneficial to HM Treasury in considering economic policy, both as part of Budget 2016, and in the future. The BVRLA would be happy to provide any additional information, or present our views to relevant officials, if desired.

[20] Thatcham Research, “Autonomous Emergency Braking”; at: http://www.thatcham.org/aeb