HMRC consultation on

Salary Sacrifice

for the provision of

Benefits in Kind

Submission from:

The British Vehicle Rental and Leasing Association (BVRLA)

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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 purchase nearly 50% of all new vehicles sold in the UK, an estimated 1 million vehicles per annum, including an estimated 80% of all cars built and sold in the UK.
- 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 BVRLA welcomes the opportunity to contribute to HMRC's consultation on salary sacrifice arrangements for the provision of benefits-in-kind. Having met with officials from HMRC to discuss the benefits of salary sacrifice arrangements, the BVRLA is keen to provide a formal submission detailing the value of these benefits, as well as the potential negative impacts were salary sacrifice to become no longer financially viable.

Having heard reports of employees of some businesses receiving items such as white goods, mobile phones, and crates of wine, under supposed "salary sacrifice" arrangements, the BVRLA appreciates and supports the reasons for pursuing these forms of arrangements, and ensuring both employers and employees fulfil their tax obligations.

However, the BVRLA is concerned at the effect of treating all salary sacrifice arrangements in the same manner. As it stands, HMRC's proposed reform would involve changing the method of taxing employer-provided cars from the current system of Company Car Tax to taxing the value of the car under income tax and Class 1A National Insurance Contributions (or alternatively, taxing the amount for which the car is liable under Company Car Tax, whichever amount is the greater). The BVRLA also notes that according to section 2.4 of the consultation document, the proposed reforms will not only apply to cars and other benefits provided under salary sacrifice – where a portion of the employee's salary is sacrificed in exchange for a car provided by the employer, but all benefits provided under flexible benefit (or cash alternative) arrangements. This latter arrangement involves the provision of benefits, which can include an employer-provided car, as part of the employee's remuneration package. However, unlike salary sacrifice, the employee's salary will not be increased if the car is refused.

As one of the most well-established flexible benefits to attract, reward, and retain employees, there are currently around 650,000 company cars (around 70,000 cars provided under a salary sacrifice arrangement, and 580,000 provided as part of an employee's flexible benefits package), which could be affected by the current HMRC proposal. The BVRLA sees several major distinctions between the provision of these employer-provided cars, and the abusive arrangements referred to previously.

Most importantly, the BVRLA wishes to make clear that cars which are provided by or via employers, whether under a salary sacrifice or flexible benefit scheme, are already subject to the current system of Company Car Tax. This system is proven to be effective, accurate, and progressive in incentivising drivers toward the Government's own objectives – for example, as the amount of Company Car Tax paid is lower for employees driving lower-emission cars, this assists the Government to both incentivise drivers to take lower emission vehicles, and to speed up the scrappage of older, higher polluting cars.

In terms of anticipated effects of the consultation proposal, estimates by the firm Oxford Economics have suggested that HMRC may increase tax revenue from salary sacrifice cars by up to £7 million in the first year following implementation of the proposal (assuming no behavioural change on the part of employees taking an employer-provided car). However, the effect of the planned 2% increase in the Company Car Tax bandings (announced at Budget 2014) means that additional revenue would fall to just £2million in 2019-20. Increases in the tax revenue from cash alternative cars, estimated at £64 million in the first year, would also fall at a similar rate over the same timescale.

Estimating the response on the part of employees currently driving an employer-provided car, a survey of 1,600 employees revealed that if salary sacrifice arrangements on cars were unavailable or financially unviable, then 64% definitely would not purchase a brand new car, with only 7% stated they would still purchase a new car. This is particularly important in the salary sacrifice sector, where just under 3 in 4 employees who have taken an employer-provided car under a salary sacrifice arrangement in the past three years are basic rate taxpayers.

Extrapolating this response across the entire employer-provided car market, Oxford Economics has estimated that a 42% reduction in the employer-provided car market, equal to the share who would see their tax bill rise under the proposed changes, would have a significant impact on the UK economy and environment, including the following:

- A loss of up to 61,000 new car registrations, including 9,800 manufactured in the UK
- A loss of 9,500 jobs due to the reduction in new car demand
- A tax loss to the Exchequer of £117 million, resulting from the drop in new car demand
- A reduction in GDP of up to £1 billion
- An annual increase of 95,300 metric tonnes in CO_2 emissions, from employees moving to older, second-hand and higher emission cars.

For these reasons, and given the demonstrable success of the current Company Car Tax system, the BVRLA recommends that the Government provide an exemption to the current HMRC proposals for employer-provided cars.

The BVRLA hopes that this evidence will be beneficial in assisting HMRC develop a fair and balanced review of employee benefits, particularly as it relates to employer-provided cars, and would be happy to meet with HMRC or HM Treasury officials to discuss this in more detail, if required.

Summary of reasons for cars to be exempted from the proposal

- **Revenue Protection** – The investment policy for CCT is progressive and well understood – Tax rates that are set to increase and promotes low emission vehicles
- **Materiality** – The proposed changes will not raise any significant level of taxation – the Exchequer is already protected by the planned tax increases in current policy which is put at risk by the proposal
- **Policy conflict** – The proposal reduces incentives to select low emitting vehicles and punishes those employees selecting cars below 115 g/km by raising the tax they pay
- **Environmental damage** – The proposals will have an unintended consequence of increasing environmental damage as the tax policy encourages employees to drive their more polluting cars
- **Economic Stability** – The change in policy will also reduce new car sales at a very delicate time for the UK car industry
- **Fairness** – Employees hit hardest by the changes in the salary sacrifice sector will be hard working families who pay basic rate tax and who have done the right thing in selecting the cleanest and safety car.

Data summary

About the UK employer-provided car market

- Company cars are the second most popular benefit-in-kind (after medical and dental benefits) provided by employers in the UK, received by almost one million employees.
- The proposed tax changes to the employer-provided car market will impact around **650,000 employees**, including 70,000 taking a car under a salary sacrifice arrangement, and 580,000 under a cash alternative initiative.
- Just under **3 in 4 employees** who have taken an employer-provided car under a salary sacrifice arrangement in the past three years are **basic rate taxpayers**.
- In 2015, the employer-provided car market contributed **£453 million in tax revenue** to HMRC (Income and Corporation Tax). This figures takes into account the operations of the industry, including the UK-built cars and the engines and other major components purchased, the activity of UK dealerships and its impact upon the used car market.
- The employer-provided car market supports **37,000 jobs** in the UK – directly, via the supply chain, and consumer spending channels.
- 37% of employer-provided cars were UK-built, or contain an engine produced in the UK.

Projected economic impacts of the current proposals

- Under a best case scenario, assuming no behavioural change on the part of employees taking a salary sacrifice car, tax revenue is anticipated to rise by £7 million in the first year following the proposed changes. However, with the effect of the planned 2% increase in the Company Car Tax bandings (announced at Budget 2014), this additional revenue is expected to fall to £2 million in 2019-20. Increased tax revenue of up to £64 million from cash-alternative vehicles in the first year would fall at a similar rate.
- A survey of 1,600 employees currently driving a salary sacrifice car demonstrated that 64% definitely would not purchase a brand new car, if salary sacrifice arrangements were unavailable. Just 7% stated they would still purchase a new car.
- Extrapolating this response, a low behavioural change would see the employer-provided car market shrink by approximately 42%, while a high behavioural change scenario would see the collapse of the entire market.
- A loss of up to 61,000 new car registrations, including up to 9,800 UK manufactured vehicles
- A loss of up to 9,500 UK jobs due to reduction in new car demand

Projected impact to the Exchequer

Depending on which of the above scenarios occurred, the impact of this could see:

- If there is no behaviour change, the proposals are estimated to see an increase of £14m in tax receipts (Company Car Tax, NICs, VAT, VED, registration tax) in the first year from the salary sacrifice market and a £110m increase in tax receipts from the cash alternative market
- If there is a complete collapse of the entire company-provided car scheme market, the Treasury would see a £18m reduction in tax receipts from the salary sacrifice market and a £84m increase in tax receipts from the cash alternative market.
- A tax loss (Income and Corporation Tax) to the Exchequer of between £117 million stemming from reduction in new car demand
- Further losses through Additional Mileage Allowance Payments (AMAPs) paid to employees driving private vehicles for business mileage between £2 to £5 million for salary sacrifice vehicles and £23 to £54 million for cash alternative cars.
- A reduction in UK GDP of up to £1 billion per annum

Environmental impact of the proposals

By reducing demand for new cars and by shifting demand away from cleaner vehicles to higher polluting second-hand cars, the proposed changes could potentially lead to the following changes in emissions:

- Annual CO_2 emissions would increase by 95,300 metric tonnes per annum
- Annual nitrogen oxide (NOx) emissions would increase by up to 340.7 metric tonnes from diesel cars, and 73 metric tonnes for petrol cars.

Consultation questions

1. Alongside annual leave, are there any other salary sacrifice arrangements that the government should be made aware of that do not strictly involve receipt of a benefit?

The BVRLA understand that there are reports of some employees receiving items such as white goods (fridge-freezers, washing machines, etc.), mobile phones, and crates of wine, under supposed "salary sacrifice" arrangements. Both the BVRLA and our members appreciate and support the reasons for addressing these forms of arrangements, and ensuring both employers and employees fulfil their tax obligations. However, there are several major differences between the above abusive arrangements, which are currently untaxed, and those arrangements where a car is provided to an employee on a salary sacrifice basis, and are subject to Company Car Tax. Most importantly of all, cars which are provided by or via employers under a salary sacrifice arrangement are already subject to a tax system which is effective, accurate, and progressive in incentivising drivers toward the Government's own objectives. For example, as the amount of Company Car Tax paid is lower for employees driving lower-emission cars, this assists the Government to attain its CO_2 emissions targets. Conversely, the current proposals will remove the current tax incentive toward such lower-emission cars, and therefore jeopardise the Government's Climate Change target.

Secondly, we understand HMRC is concerned with some employee benefits not being provided on a compliant basis – instead of an employee having the right to use an employer provided asset through his or her employment, they are purchasing assets through pre-tax salary. Clearly "salary sacrifice" wine would fall into this category. However employer provided cars are correctly provided on a usage basis and the vehicle is returned to the employer at the end of the lease.

For these reasons, the BVRLA believes that employer-provided cars – whether those under salary sacrifice or cash alternative arrangements – should be made exempt from the changes proposed in the consultation document.

2. What are the likely impacts on employers and employees of limiting the cope of benefits in kind that can obtain tax advantages when offered through salary sacrifice arrangements?

The proposed changes to the current tax system, which has previously provided businesses and employees with confidence to plan and negotiate their remuneration packages, would drive up costs for both within the employer-provided car market. The proposed changes would remove the marginal tax advantage available through employer-provided cars (both those provided under salary sacrifice or cash alternative arrangements), driving up the costs of these cars for employees. While the proposed changes will not in themselves eliminate either option for employees, a significant number of these employees will see their tax bill rise substantially and will opt on that basis to leave the employer-provided car scheme. In the extreme case, the added complexity and confusion could potentially lead to the collapse of such schemes altogether, even for those employees who would see either a modest rise or no rise at all in their tax bill.

Employers

Taking away the benefits of salary sacrifice would remove a valuable option for employers in increasing employee retention, something which could be extremely important for companies, particularly in the current times of economic uncertainty following the Brexit vote. As the BVRLA has set out in a previous submission[1], non-cash rewards can incentivise and have a greater motivational impact upon employees than the equivalent cash reward[2]. A car provided by an employer is therefore a useful and valued option for employers to attract and retain high-performing employees, and improve employee satisfaction. The loss, or rendering of this option financially unviable, would therefore adversely impact employers.

There is also the risk that introducing the proposal as it currently stands could potentially damage employer-employee relations, with employees feeling locked into a contract where the financial benefits for employees making environmentally responsible decisions have now been removed.

Finally, there are also likely to be considerable compliance costs to employers, particularly those of employees who decide to hand back their employer-provided cars due to the increased tax burden (this would typically involve an early termination charge for both the employer and employee). For these reasons, a greater amount of time should be considered before the introduction of any changes to the current system.

Employees

According to the data provided by the seven BVRLA members participating in this study, just under 3 in every 4 employees taking an employer-provided car on a salary sacrifice arrangement are basic rate taxpayers (i.e. paid a salary of £32,000 or under). This higher take-up among lower-paid employees is due to salary sacrifice representing the best (and often, only) and most cost-effective option to access a brand new car, as these cars can benefit from corporate discounts, and without the need for a deposit or credit checks. Salary sacrifice cars are also insured and maintained by the lease company as standard. As the monthly cost for

[1] BVRLA, Call for Evidence on Remuneration Benefits – submission to HM Treasury, 2014
[2] Kube, S. et al.; *The Currency of Reciprocity*; American Economic Review: Vol. 102 No. 4 (June 2012), at https://www.aeaweb.org/articles.php?doi=10.1257/aer.102.4.1644

the car is "paid" at source (through the monthly portion of the employee's salary which is sacrificed), this makes the arrangement easier and more manageable for employees, particularly those with a lower monthly or annual budget.

Oxford Economics have extrapolated this across the whole estimated salary sacrifice market. The full breakdown is presented below[3]:

Figure 1, salary sacrifice car employees by tax band

Tax band	Count	Percent
20%	51,400	73.5%
40%	18,000	25.7%
45%	600	0.8%

To assess the proportional impact that the changes proposed by HMRC in the consultation document upon the two main taxpayer groups, the following two tables set out the increased tax burden on employees at both the basic and higher tax rates. These have been calculated according to contracts which are currently in operation, and will be across each of the next three years.

The first, a Ford Fiesta, is one of the most common cars currently driven by employees under a salary sacrifice scheme. The second, a Nissan Leaf, is perhaps the greenest car in terms of CO_2 emissions. The third and final car, a BMW i3, is more common among employees above the basic rate, and is included to provide information of the anticipated impact of the proposals upon all employees at all tax rate levels.

Vehicle	P11D	Fuel Type	C02 Band	Gross Sacrifice	Finance Rental	2017 Monthly Gross BIK	2018 Monthly Gross BIK	2019 Monthly Gross BIK
Ford Fiesta Hatch 3Dr 1.0EcoBoost 140 SS EU6 ST-Line Red Edition	£16,965	Petrol	100-104g/km	£480	£211	£269	£297	£339
Nissan Leaf Hatch 5Dr 0.0Elec 107 Visia Auto	£27,285	Electric	0	£454	£275	£41	£59	£73

[3] Oxford Economics, at p. 12.

BMW i3 Hatch 5Dr 0.0ElecREX 170 SS Suite eDrive Auto	£36,075	Petrol Hybrid	1-50g/km	£654	£403	£59	£85	£105

	20% Tax Payer increase				40% Tax Payer increase			
Vehicle	2017	2018	2019	Total increase	2017	2018	2019	Total increase
Ford Fiesta Hatch 3Dr 1.0EcoBoost 140 SS EU6 ST-Line Red Edition	£508	£440	£338	£1,287	£1,016	£880	£677	£2,573
Nissan Leaf Hatch 5Dr 0.0Elec 107 Visia Auto	£991	£948	£915	£2,853	£1,982	£1,895	£1,830	£5,707
BMW i3 Hatch 5Dr 0.0ElecREX 170 SS Suite eDrive Auto	£1,428	£1,365	£1,318	£4,110	£2,855	£2,730	£2,635	£8,220

These results demonstrate the increased tax burden, particularly upon basic rate taxpayers. With a total increase of over £1,200 for a Ford Fiesta (for example), it is reasonable to expect a migration by basic rate taxpayers away from salary sacrifice to a less expensive and/or tax efficient option, due to an inability to afford or access credit to purchase a new car.

This raises a question over the fairness of the proposals, with the lowest paid employees effectively being forced out of one of the most progressive schemes to allow such employees to access a new car. It is likely that higher paid employees will continue to be able to access new cars through other initiatives. However, the primary reasons why employees prefer salary sacrifice schemes are that the corporate discount, the lack of need for an upfront deposit, insurance (which is typically provided as standard by the lease company), and the ongoing maintenance of the car are covered, collectively make a new car financially accessible. For this reason, the proposed changes are likely to be seen as disproportionate, with the lowest paid employees being hit the hardest.

In addition, the proposals are likely to have a further disproportionate effect on younger employees, who currently rely on salary sacrifice arrangements to access new cars. According to the data provided by the seven participating BVRLA members, the vast majority (91%) of salary sacrifice employees are between the ages of 25 and 54 years old. However, the age of the youngest employees have dropped to as young as 20.

Oxford Economics has extrapolated this data across the whole salary sacrifice market:

Figure 2, salary sacrifice car employees by age

Age band	Count	Percent
18-24	1,600	2.3%
25-34	18,500	26.4%
35-44	24,400	34.8%
45-54	20,900	29.8%
55-64	4,600	6.5%
65+	100	0.1%

With a significant increase in the tax burden, younger employees are likely to be put off the prospect of taking an employer-provided car if the current proposals are adopted. In doing so, such younger employees will also be unable to access the benefits of salary sacrifice arrangements detailed previously (corporate discounts, no deposit required, etc.). For these reasons, younger employees are one of the major groups likely to move toward the second hand cars, as a result of this increased tax burden on new cars.

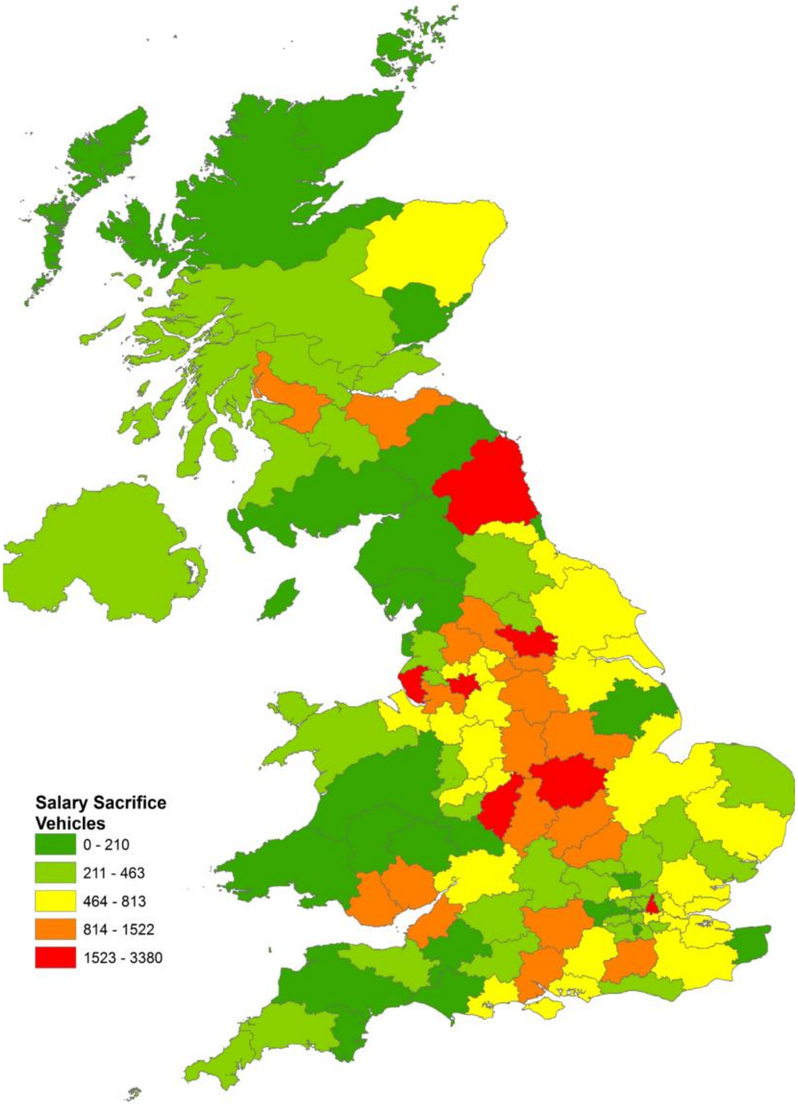
Geographical impact

A further issue for HMRC to consider as part of this consultation is the regional impact that the proposed change, and resulting employee behaviour, is likely to have. For all kinds of employees in all regions of the UK, salary sacrifice car schemes offer cost effective ways to travel to and from work and to perform jobs requiring travel—this is especially the case in lower-density populated areas where alternative transport options are more limited.

In order to fully assess the current geographical spread of cars currently being provided to employees under a salary sacrifice arrangement, data provided on these employees by the seven participating members is illustrated in the following map[4]:

[4] Oxford Economics, at p.14.

Figure 3; Regional distribution of current salary sacrifice employees



As revealed in the above map, salary sacrifice arrangements on employer-provided cars are particularly popular among employees based in Newcastle and Northumberland, Liverpool and Merseyside, Yorkshire (especially West Yorkshire), and the Midlands. These are closely followed by employees in Manchester and Warrington, Gloucestershire and Somerset, Hampshire and West Berkshire, southern Scotland, and South Wales.

Far from the assumption that cars provided under salary sacrifice arrangements being most prevalent among employees based in or around London, it is employees in the above regions who would be most impacted if the current proposal was adopted. This regional economic impact would include reduced consumer spending on new cars following the anticipated employee migration to second hand cars, as well as potential disruptions in employer-employee relations as a result of changes to current contracts.

Projected migration of current employees taking an employer-provided car

The trend of the vast majority of current employees taking a salary sacrifice car are in the basic tax rate is one which has been consistent for several years[5]. The BVRLA has consistently asserted that the loss of this option, or a reduction in the tax benefit, would cause a reduction in the annual demand for new cars, as these employees would be less likely – and less inclined – to access a new car. The substitution effect would cause a reduction in the number of new cars sold each year, with the associated impact on the automotive industry.

In order to measure this assumption, the BVRLA conducted a survey of over 1,600 current employees taking a salary sacrifice car. Participants to the survey were asked which of the following options they would have taken if a salary sacrifice scheme were not available or financially viable, for a new car. The results were as follows:

A) Keep current car – 23%
B) Personal Contract Hire/Hire Purchase – 29%
C) Get a second-hand car – 41%
D) Buy a brand new car – 7%.

With just 7% of employees currently taking a salary sacrifice car stating that they would still purchase a brand new car, this would clearly have a major impact in annual sales of new cars, with a total of 64% stating that they would not purchase a new car, preferring instead to continue with their current or purchase a second-hand car. In fact, the number of employees not purchasing a new car in the absence of salary sacrifice is likely to be even greater, with the second option including lease options on both new and used cars. Given the prevalence of basic rate taxpayers among salary sacrifice car employees, Oxford Economics have estimated that approximately 75% of these respondents would lease a used car, and 25% a new car[6].

In estimating the potential substitution effect on the part of employees taking a car on a cash alternative basis, Oxford Economics made the following assessment based on the assumption that this market is generally higher earning than that of the salary sacrifice market. For this reason, a larger share of this group are likely to be in a stronger financial position to respond to the changes in the company car scheme by purchasing or leasing a new car themselves,

[5] According to the data provided by the seven participating members, basic rate taxpayers have represented over 70% of the total number of employees taking a car under a salary sacrifice arrangement since 2010-11.
[6] Oxford Economics, at p.16.

and a smaller share to decline to buy a car at all. The following estimates are therefore proposed:

- 10 percent would not buy or lease a car;
- 10 percent would lease a used car;
- 30 percent would lease a new car;
- 20 percent would buy a used car;
- 30 percent would buy a new car.

Therefore, adoption of the current proposal would risk a major migration from younger and/or lower paid employees, as well as those based in the regions identified, away from new employer-provided cars and into older second-hand cars. The impact of this migration upon the automotive industry, as well as on UK emissions, is considered later in this submission.

3. Are these impacts different, or are there different considerations, for large/small businesses or particular business sectors?

According to the data provided by three of the seven participating BVRLA members since 2015, the split between public and private sector employees driving a salary sacrifice car can be broken down using both an unweighted estimate, and as an estimate weighted by the size of the companies in the dataset. The results are shown in the table below:

Figure 4, Private vs. public sector breakout of salary sacrifice drivers[7]

	Private Sector	Public Sector
Unweighted average	76%	24%
	53,500	16,500
Weighted Average	68%	32%
	47,600	22,400

Taking the weighted average as the preferred estimate, we assume that 32% salary sacrifice users, or 22,400 people, are public sector employees. As outlined in the response to question 2, the benefits of salary sacrifice arrangements – including no requirement for a deposit, a corporate discount, no credit checks, etc. – are particularly beneficial to lower paid employees in assisting them to access a new car. Given the average differences in salary between public

[7] Oxford Economics, at p.13.

and private sector employees, the former likely to be hit proportionally harder by the proposed changes. Once again, these employees are likely to move to second-hand cars if salary sacrifice arrangements were no longer financially viable or tax efficient.

4. Are the impacts different for particular benefits in kind?

See previous answers to questions 1, 2 and 3.

5. Do you think that the government needs to take any steps to mitigate any negative consequences of this change for employees and employers, such as those who may be locked into salary sacrifice arrangements? If responding, it would be helpful to understand specific examples and factors the government should take into consideration.

The BVRLA has set out several negative consequences to both employers and employees in the response to question 2, and its view that cars should be made an exception to the proposed changes to the current system. However, if the proposals were adopted as they currently stand by Government, the BVRLA would make two firm recommendations aimed at mitigating the negative consequences described.

a) Firstly, that any change to the current tax system is not applied retrospectively, and that current contracts are "grandfathered". This would ensure that employees who are currently in receipt of an employer-provided car are not penalised retrospectively, having agreed these contracts on the basis of the current regime. This would also ensure that such employees are given time to plan and manage their monthly salary, and not be hit financially for taking newer, safer, and greener cars over older, second-hand models. Retrospectively application of tax changes means applying them for dates before the change comes in. i.e. before 6th April 2017.
b) Secondly, the Government should also ensure a sufficient lead-in time of no less than one year in order to allow companies (including BVRLA members) which negotiate and lease employer-provided cars to businesses, and these businesses themselves which offer employer-provided cars as part of their employment packages, time to adjust their own business practices.

The above recommendations would ensure the minimum immediate disruption to both employers and employees currently driving an employer-provided car, as well as to the businesses of those companies further up the supply chain, producing or providing the car. They would also help to avoid unnecessary termination charges to both employers and employees, if the latter were to hand back their employer-provided cars due to the increased tax burden.

6. Do you consider that the approach proposed for legislation would work as intended?

No. The implicit assumption of this proposal, as it relates to employer-provided cars, is that the same number of cars would have been sold regardless of these arrangements being available to employees, and will continue to be sold at the current rate even if the resulting tax liability on these cars is increased.

However, as demonstrated in the response to question 2, the evidence disputes this assumption, with projected sales of cars estimated to fall by up to 145,100 new car registrations, including up to 23,200 UK manufactured cars, as a result of the drop in demand for new cars.

7. Are there any consequences the government has not considered in proposing to legislate in this way?

Yes – firstly, there is likely to be a consequence to HMRC itself, in terms of a new set of audits to carry out in order to ensure compliance with the new rules (particularly in terms of cash alternative arrangements).

In addition, the anticipated behavioural change effect is likely to have several negative consequences – as approximately three quarters of employees taking a salary sacrifice car are in the basic tax rate, increasing tax on such cars would risk these employees choosing not to take these cars and use older, second-hand cars (referred to as "grey fleet"). This would result in a reduction in new cars being sold, cutting off a valuable source of tax income for HMRC. As older cars are also likely to have inferior emissions standards than new cars, such a migration by employees would also have negative consequences on climate change/CO_2 reduction; air quality and reducing Nitrogen Oxides (NOx) emissions; and improving road and vehicle safety standards.

<u>CO_2 emissions</u>

Salary sacrifice cars have had an extremely positive impact on the carbon footprint of the UK new car market. According to the data provided by the seven participating BVRLA members, the average salary sacrifice car registered in 2015/16 had an emissions rating of 104.8 grams of CO_2 per kilometre, which compares to to 121.4g CO_2/km for the average newly registered car[8], and 154g CO_2/km for the average car in the UK[9].

To provide further insight into this point, the following table provides a breakdown of the CO_2 ratings of the salary sacrifice cars provided by the seven participating BVRLA members, according to the current Company Car Tax bandings for CO_2 emissions[10]:

Figure 5, Breakdown of salary sacrifice cars by BIK CO_2 emissions bands

CO_2 g/km	Percent
0-50	2.8%
51-75	0.4%
76-94	9.8%
95-99	26.8%
100-104	11.0%
105-109	13.2%
110-114	8.4%
115-119	8.7%
120-124	5.7%
125-129	4.6%
130-134	1.7%
135-139	3.5%
140-144	0.8%
145-149	1.3%
150-174	1.2%
175+	0.1%

As cars with a lower CO_2 emissions rating currently attract a lower percentage of the taxable value for Company Car Tax, the current tax system positively influences employees choosing an employer-provided car toward one with lower emissions – the lower the CO_2 rating, the

[8] Society of Motor Manufacturers and Traders Limited (SMMT); New Car CO_2 Report 2016, 15th Report, at p.5: http://www.smmt.co.uk/wp-content/uploads/sites/2/SMMT-New-Car-Co2-Report-2016.pdf
[9] BVRLA and Energy Saving Trust; Getting to Grips with the Grey Fleet, July 2016, at p.29: http://www.bvrla.co.uk/sites/default/files/documents/bvrla_grey_fleet_final.pdf
[10] HMRC, Taxable benefits in kind and expenses payment: Company Car Tax rules 2005-06 to 2018-19; at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/532303/TC2b.pdf

more cost-effective the car will be – and emphasises the progressive nature of the current tax system. Changes to the current system will almost certainly disrupt current employee choices in employer-provided cars, and therefore the types of cars driven on UK roads, with a significant percentage of current employees taking an employer-provided car opting to take a second-hand car with the associated higher emissions.

To further extrapolate, the following table, which is based upon an analysis conducted by Oxford Economics[11], presents the impact on CO_2 emissions of three potential scenarios: Current / no behavioural change; Low behavioural change[12]; and High behavioural change. Assumptions on emissions rates and number of miles driven are included in the table.

Figure 6, CO_2 emissions under current and alternate scenarios

		Company cars	Other new cars	Used cars	Use existing car	Total CO2 (mil kg)
Emissions		104.8	121.0	154.0	154.0	
Miles		8,000	8,000	8,000	6,500	
Current/No behaviour change	SS drivers	70,000				58.7
	CA drivers	580,000				486.3
	Total	650,000				545.0
Low behaviour change	SS drivers	40,600	4,116	18,522	6,762	67.6
	CA drivers	336,400	146,160	73,080	24,360	537.9
	Total	377,000	150,276	91,602	31,122	605.6
High behaviour change	SS drivers		9,800	44,100	16,100	79.9
	CA drivers		348,000	174,000	58,000	609.3
	Total		357,800	218,100	74,100	689.2

[11] Oxford Economics, at p.36.
[12] Note that under the low behavioural change scenario, there is no assumption that those employees driving low-emission cars are any more or less likely to leave the employer-provided car market, even though they see their tax bills rise the most. For this reason, the estimates presented here for the low behavioural change scenario should be seen as conservative.

Overall, if the current proposals were adopted, CO_2 emissions are estimated to increase by a total of 60.6 million kg (11%) under the low behavioural change scenario, and by 144.2 million kg (26%) under the high behavioural change scenario. In addition, as leased cars (including employer-provided cars) are typically sold to the second-hand market at the end of the lease term, the current proposals are likely to reduce the number of these cars being used further down the vehicle lifecycle, with the result that an increased number of older, higher emission cars will be selected by second-hand car drivers[13].

This point is acknowledged under section 2.1 of the current consultation launched by HM Treasury[14] on Company Car Tax for ultra-low emissions cars, which sets out the Government's goal of nearly all cars and vans in the UK fleet being zero emission by 2050, and that nearly all new cars and vans sold in the UK should be zero-emission by 2040. This emphasises the contradiction between the Government's plan to use Company Car Tax to encourage more employees to drive lower emission cars and the effect of HMRC's consultation proposal, which will push employees away from accessing newer and greener employer-provided cars in favour of second-hand cars. As well as compromising the Government's target of reducing CO_2 emissions by 3% per annum, adoption of the HMRC proposal will also jeopardise the UK's commitments mandated under the Climate Change Act and international protocols.

Air Quality

According to the aggregated assessment of members' fleets, 83% of cars provided to employees under a salary sacrifice arrangement have a European Emission Standard of Euro 5[15] or above. 28% of these salary sacrifice cars conform to the latest Euro 6 standard[16], compared to a UK national average of just 6% of cars. As the average UK car is 7.9 years old[17],

[13] While cars in the used car market is not modelled, many start out as employer-provided cars. The current tax regime provides strong incentives for lessors of employer-provided cars to favour low-emissions vehicles; the effects of these incentives ripple into the second hand car market, where buyers may be less sensitive to vehicle emissions.

[14] HM Treasury, August 2016; "Company car tax for ultra-low emission cars"; at p. 5: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/545047/company_car_tax_consultation.pdf

[15] http://ec.europa.eu/environment/air/transport/road.htm. Under the Euro 5 standard, petrol cars must not emit more than 60mg of NOx per kilometre. Diesel vehicles must not emit over 180mg NOx/km.

[16] Under the Euro 6 standard, NOx emissions from diesel cars must not be greater than 80mg per kilometre. Emissions from petrol cars are unchanged from the previous Euro 5 standard (60mg/km).

[17] SMMT, Motor Industry Facts 2016, at: http://www.smmt.co.uk/wp-content/uploads/sites/2/SMMT-Motor-Industry-Facts-2016.pdf

these are likely to conform to the older Euro 3 standard[18], which equates to a difference in 420mg NOx/km per diesel car, and 90mg NOx/km for petrol cars.

Assessing the air quality impact of the proposed change, the average mileage for employees driving an employer-provided car is 15,000 miles (or 24140.16km) per year[19]. The data provided by BVRLA members has suggested that both diesel and petrol cars provided under salary sacrifice arrangements each make up 48% of cars registered in 2015/16, (with the remaining 4% split between hybrid and electric vehicles). Therefore, if the above 45,000 employees currently taking up a salary sacrifice arrangement on an employer-provided car decided that this was no longer financially viable and elected to take an average UK car, this could risk an increase in car-derived NOx emissions of up to 219 tonnes per annum for diesel cars, and 46.9 tonnes per annum for petrol ones. Expanding this calculation across the estimated 70,000-strong salary sacrifice fleet, the collapse of salary sacrifice arrangements on employer-provided cars could lead to an annual increase of 340.7 tonnes of NOx for diesel cars, and 73 tonnes NOx for petrol cars.

Given the importance that the Government has ascribed to of improving UK air quality, the BVRLA believes that a strong case can be made for new employer-provided cars to continue to benefit from relief as a health-related benefit (as set out under section 3.4 of the consultation document), as these cars contribute to better respiratory health for the employee and their local community. The sector can therefore continue to contribute as a partner in helping the Government to realise its safety and air quality agendas.

Road and vehicle safety

The Government has repeatedly stated its intention to reduce road accidents, as well as deaths and serious injuries on UK roads, all of which have increased in recent years[20]. As some of the newest vehicles being driven, employer-provided cars – whether under a salary sacrifice or cash alternative arrangement – are built to the latest and highest safety standards, and are therefore among the safest on UK roads, as the table below demonstrates:

[18] Under the Euro 3 standard, NOx emissions cannot exceed 150mg/km for petrol cars or 500mg for diesel cars.
[19] BVRLA, Quarterly Leasing Survey, Q2 2016, at p. 7: http://www.bvrla.co.uk/system/files/member-files/research/bvrla-q2_2016_final.pdf
[20] BVRLA, Vehicle Safety policy paper; at: http://www.bvrla.co.uk/sites/default/files/documents/vehicle_safety_-_digital.pdf

Figure 7; NCAP rating of salary sacrifice market

NCAP rating	Full sample		2015-16 sample
	Count	Percent	
3 Stars	2,370	3.4%	0.3%
4 Stars	12,000	17.1%	20.9%
5 Stars	55,630	79.5%	78.8%

The aggregated dataset of cars provided by the seven BVRLA members reveals that 99.7% of cars provided under a salary sacrifice arrangement in 2015-16 were awarded a NCAP safety rating of 4 stars or above, with nearly 4 in 5 of these cars conforming to the 5 star standard. As the age of the average car in the UK last year was 7.9 years, these cars are highly unlikely be fitted with the same safety features or conform to the same standards.

If the current proposals are adopted by the Government, there is likely to be a significant drop in the take-up of new cars with these enhanced safety standards by employees, many of whom are likely to opt for second-hand cars. The reduced numbers of newer, safer cars and the corresponding increase in the number of older, second hand cars could therefore risk a negative impact upon the annual numbers of road accidents. In addition to the impact this would have upon individual road users, an increase in road accidents would also entail further costs to the taxpayer including the cost of ambulance and health services, police investigations, and clearing the crash site[21].

8. Would this timeline present employers with difficulty, for example with updating payroll software?

The consultation document suggests that the proposal to extend income tax and Class 1A NICs to all benefits in kind (including employer-provided cars) could be introduced as early as April 2017. As stated previously, lease contracts on cars are typically three years in length, so the proposed timescale will not give employers sufficient time to amend existing employee contracts, or prepare and adapt current and future ones. For these reasons, and those set out more fully in the response to question 5, the BVRLA requests that any changes to the current system are not made retrospectively (i.e. are "grandfathered", with current salary sacrifice contracts made exempt from these changes for the remainder of the length of lease), and a further sunset clause of up to a year before these changes come into force.

[21] The Department for Transport currently estimates the annual cost of road accidents at £16 billion per annum, though this does not take into account economic losses caused as a result of congestion experienced by companies and individuals in the hours after a crash.

In terms of payroll software, several employers have raised concerns in adapting current systems within the proposed timetable. These are likely to be ameliorated through the provision of a manageable lead-in time.

Finally, both employers and employees need certainty and stability in the tax system. The threat of the above proposals have already had a significant effect on existing orders, with members estimating a reduction in orders of up to 30%. The sector is looking for certainty from this consultation, with any changes communicated clearly, swiftly and effectively.

9. Are there any other changes that employers would need to make?

In addition to the points raised previously, employers will also face new audit and compliance costs, as well as the costs of verifying and amending HR records. At a time when employers are in the process of implementing recent legislation around human resources and employment, the proposal to amend the basis for tax to employer-provided cars represents a further implementation burden to employers, in addition to the financial costs.

Following the point raised concerning the likelihood of employees currently taking an employer-provided car moving to second-hand cars with inferior safety standards[22], this migration toward such cars could have impacts on employers' duties of care, particularly regarding employees who are required to drive large and regular mileages, as well as their responsibilities in the event of the employee having a road accident.

10. Are there any other considerations which HMRC should be aware of?

In launching this consultation, there is an implied assumption on the part of HMRC that an extension of benefit in kind taxation, to include income tax and Class 1A National Insurance Contributions (NICs), will provide additional tax revenue to HM Treasury. However, given the anticipated shift in employee behaviour if this proposal is adopted, the BVRLA believes that tax revenues would be curtailed.

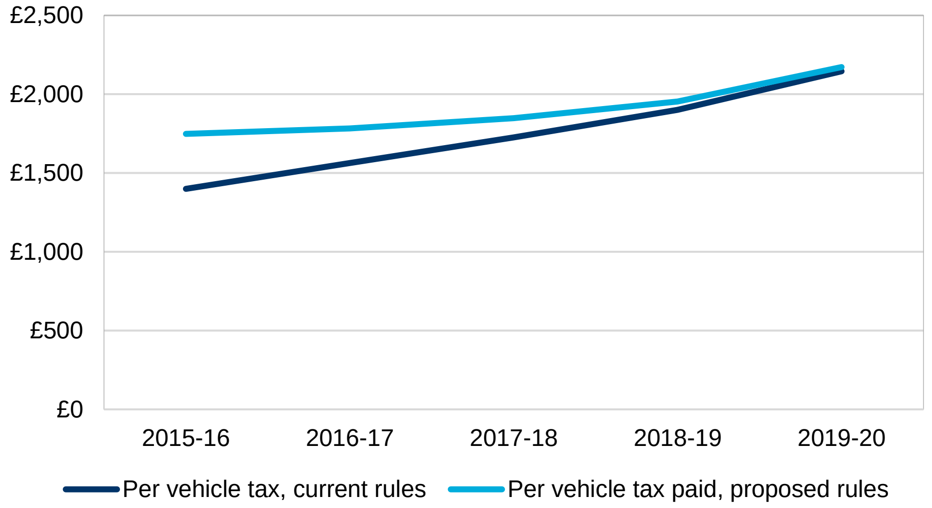
As discussed in the BVRLA's response to question 2, the proposed tax changes are likely to have a greater impact upon basic rate taxpayers, who make up around three quarters of the salary sacrifice market. In order to quantify the resulting effect on the UK economy, three different scenarios have been envisaged, with an assessment made of the economic impact these would have, both on tax revenues to HMRC, and the wider effect on the UK economy.

[22] According to sales data provided by the seven participating members, 99.8% of cars provided under a salary sacrifice arrangement in 2015-16 were built to an NCAP safety standard of either 4 or 5 stars.

Initial impact, assuming no behavioural change

Based upon the assessment made in the response to question 2 (using the dataset[23] of 45,000 salary sacrifice cars, provided by the seven participating BVRLA members), the total class 1A NICs and Company Car Tax (CCT) now paid under the current system have been calculated, in addition to the amounts that would be paid under the proposed changes to the tax system. This assumes no behavioural change, and is therefore a best-case scenario following the proposed changes.

Figure 8, Average per-vehicle income tax / CCT plus class 1A NICs paid under current and proposed tax rules assuming no behavioural change



The above graph (figure 8) reveals that the average tax per vehicle, with expected tax receipts under the current tax policy, versus under the proposed rules[24].

While the initial impact of the proposed rules is modest – only an additional £190 per vehicle in 2016-17, a 12% increase over the £1,614 currently collected – the impact decreases over time, as the changes to the CCT tax bandings (a 2% increase in the CCT bandings, announced in Budget 2014) take effect. Following these changes (and continuing to assume no behavioural change by employees) the increased tax effectively disappears by 2019-20, when this is just an additional £27 per salary sacrifice vehicle, or an additional total of £2 million to HMRC, compared to an additional £7 million in 2016-17. Similarly, cash-alternative vehicles are likely to draw an additional £64 million in tax revenue over the first year (assuming no

[23] Note that our dataset includes P11D value, but not, in general, the amount of salary a worker sacrificed. We therefore use the average ratio of annual salary sacrifice to P11D value provided by BVRLA members to approximate this, to 21%.

[24] A full explanation of this is provided in the Oxford Economics report, at p.20.

behavioural change), but falling at a similar rate over the same timescale. While this difference may be larger in reality, this is only likely as employees will respond to incentives under the current system to select more fuel efficient cars – an incentive which would be significantly reduced by the proposed changes.

An important point to consider is that one reason for the relatively low tax effects of the proposed rules is that a large number of salary sacrifice participants are likely to continue paying more tax under CCT than under income tax via a greater taxable benefit-in-kind value. Oxford Economics has estimated that approximately 42% of employees taking a car under a salary sacrifice arrangement would face a higher tax bill following the proposed changes, with the remaining 58% continuing to pay Company Car Tax, albeit at a higher rate following the changes announced at Budget 2014. The table below demonstrates these tax impacts on both a per vehicle basis, and as extrapolated totals for the 70,000 salary sacrifice market[25]. In all three cases, the amount of tax received under current policy converges with that under the proposed rules over time as the CCT basis amounts shown increase over time.

Figure 9, direct tax impact of proposed tax changes assuming no behavioural change

Per vehicle					% paying higher taxes under proposal
SS as % of P11D	2016-17		2019-20		
	Current	Additional	Current	Additional	
16%	£1,614	£50	£2,197	£0	5%
21%	£1,614	£190	£2,197	£27	42%
26%	£1,614	£524	£2,197	£93	53%

All Salary Sacrifice (£millions)				
SS as % of P11D	2016-17		2019-20	
	Current	Additional	Current	Additional
16%	£113	£3	£154	£0
21%	£113	£13	£154	£2
26%	£113	£37	£154	£7

In addition to CCT and Class 1A NICs, there are several taxes relevant to employer-provided cars that will not be directly affected by the proposed rule changes. These include registration fees, Vehicle Excise Duty (VED), and VAT. It is estimated that the average tax contribution

[25] Oxford Economics, at p.22.

from all the above is £1,111 of per vehicle per year, of which 86% is VAT. With 70,000 salary sacrifice vehicles, this currently totals £78 million per year in tax receipts.

Impact of the changes, with expected behavioural changes by employees

In estimating the impact upon tax revenues following the proposed change, the behaviour on the part of employees currently taking an employer-provided car can also be assessed. In doing so, the effects for five types of vehicles a worker might choose are considered: a salary sacrifice car under current tax rules, this same car under the proposed rules, a new car (bought or leased), a used car, or no additional car. Because of higher taxes on low-emission vehicles, total tax paid on salary sacrifice cars is, as prior, £190 higher under the proposed rules than under current rules. Where a driver does not take a salary sacrifice, employee NICs are paid on the salary that would have been sacrificed, increasing taxes paid for these three columns. VAT taxes are attributed to buying or leasing a new car, but not to buying or leasing a used car. VED is assumed to be higher for non-salary sacrifice cars because CO_2 emissions are higher.[26]

Figure 10, Tax implications of type of car selection[27]

Assumptions	Salary sacrifice (current rules)	Salary sacrifice (proposed rules)	New car	Used car	No car
Years car kept	3	3	5	5	
P11D value of car	£21,200	£21,200	£21,200	£7,600	
Salary sacrificed/received	£4,452	£4,452	£4,452	£4,452	£4,452
Drivers in 20% tax band	74%	74%	74%	74%	74%
Taxes paid					
CCT / income tax	£1,072	£1,198	£1,138	£1,138	£1,138
Class 1A NICs	£541	£605	£579	£579	£579
Employee NICs			£503	£503	£503
VAT	£950	£950	£848		
VED	£140	£140	£140	£140	
Registration	£18	£18	£11	£11	
Total	£2,721	£2,911	£3,219	£2,371	£2,220

[26] VED amounts for new and used cars are estimated based on tax tables based on limited data. They are not quantitatively very significant in the results.
[27] Oxford Economics, at p.24

These five car choices serve as the building blocks from which the total tax impacts of the three behavioural scenarios are estimated. This uses the tax numbers from the previous figure to estimate total tax impacts under current law, and under the three behavioural responses described above.

Figure 11, tax implications for behavioural scenarios

	Current	No behavioural response	Low behavioural response	High behavioural response
Share salary sacrifice (current rules)	100%	0%	0%	0%
Share salary sacrifice (proposed rules)	0%	100%	58%	0%
Share new car	0%	0%	6%	14%
Share used car	0%	0%	26%	63%
Share no car	0%	0%	10%	23%
Average taxes	£2,721	£2,911	£2,720	£2,455
Total taxes (millions)	£190	£204	£190	£172
Change from current	-	£14	£0	- £18

While total taxes collected do increase by £14 million (7%) assuming no behavioural response, remarkably there is no tax increase under the low behavioural response scenario. Under the high behavioural response scenario, tax collections fall by £18 million (9%).

Tax considerations for cash-alternative cars

Cash alternative schemes raise a number of additional issues that make tax analysis more difficult to perform. In addition, our data sources on cash alternative vehicles are much less detailed.

Under a cash alternative scheme, the financial value of the car is set at the discretion of the employer (whereas in salary sacrifice, the value – the amount of salary sacrificed by the employee – is set by a market mechanism). In response to the proposed rules, it is possible that employers could reduce the value of the employee's alternative salary in order to tax advantage the employees who do take the car. This could potentially result in employers no longer offering a cash equivalent scheme, and only offering cars to employees for whom regular travel is a requirement. For this reason, the proposed changes could create greater disruption in the cash alternative market than for salary sacrifice.

The table below (figure 12) presents the results of the tax analysis for cash alternative vehicles, suggesting that as cash alternative users could opt to leave employer-provided car schemes at a greater rate than employees using salary sacrifice, the tax take increases under all three scenarios, up to £84 million in the high behavioural response.

Figure 12, Tax impacts of cash alternative market[28]

	Current	No behavioural response	Low behavioural response	High behavioural response
Cash alternative (current rules)	100%	0%	0%	0%
Cash alternative (proposed rules)	0%	100%	58%	0%
New car	0%	0%	25%	60%
Used car	0%	0%	13%	30%
No car	0%	0%	4%	10%
Average taxes	£2,721	£2,911	£2,892	£2,865
Total taxes (millions)	£1,578	£1,688	£1,677	£1,662
Change from current	-	£110	£99	£84

Impact of Authorised Mileage Allowance Payments (AMAPs)

Employees who drive private vehicles for business purposes generally qualify for tax-free reimbursement payments from their companies called Approved Mileage Allowance Payments (AMAPs).[29] Untaxed payments can be up to 45p per mile,[30] and workers reimbursed less than this amount can apply for tax relief up to the full amount.[31]

A 2016 report by the Energy Savings Trust[32] estimates that about 50 percent of UK drivers drive business miles in their personal vehicles, with an average of 800 miles per driver who does so, thus an average of 400 miles for drivers overall. Drivers are thus eligible for an average of £360 in tax free compensation.[33]

[28] Oxford Economics, at p.26.
[29] See https://www.gov.uk/expenses-and-benefits-business-travel-mileage/rules-for-tax.
[30] For the first 10,000 miles driven. We assume those driving over this amount are unlikely to be using a salary sacrifice or cash alternative vehicle.
[31] E.g., if a worker drives 2,000 business miles, but is only reimbursed 25p per mile, they can have their taxable income reduced by £400 = (45p – 25p) * 2,000.
[32] Energy Savings Trust (2016); “Getting to Grips with the Grey Fleet”, at p.25: http://www.bvrla.co.uk/sites/default/files/documents/bvrla_grey_fleet_final.pdf
[33] Of course, assuming a worker who currently uses an employer-provided car decides to buy their own car in response to the proposed rules coming into effect, and their salary is unchanged, this is not an actual

Drivers using an employer-provided vehicle such as a salary sacrifice or cash alternative vehicle are generally not eligible for AMAPs. They are, however, eligible for reimbursement for fuel alone. The Advisory Fuel Rate (AFR) for such reimbursements is between 11p and 20p for petrol vehicles, and between 9 and 13p for diesel vehicles.[34] For these approximate calculations, we assume an average reimbursement rate of 12p, meaning drivers of these vehicles are eligible for £96 in tax free compensation.

Taking an average tax rate of 25.3%, the additional tax-free compensation of £264 for non-salary sacrifice employees would result in tax losses of £67 per driver. For the salary sacrifice market of 70,000 drivers, this is nearly £2 million under the low behavioural response scenario in which 42% of drivers exit the salary sacrifice scheme, and £5 million under the high behavioural response scenario.[35]

While the information relating to the tax bands of cash alternative drivers is less detailed, the limited dataset suggests an average tax rate of 35.4%, meaning that £264 of tax-free earnings per driver equate to £93 in foregone taxes. With 580,000 cash alternative drivers, this results in a potential tax loss of £23 million under the low behavioural response scenario in which 42% of drivers leave the scheme, to £54 million under the high behavioural response scenario.[36]

Total estimated impact of the proposed changes

In estimating the total impact of the above, the report carried out by Oxford Economics[37] (which is provided alongside this submission) summarises these on the total number of cars and leases purchased annually under these scenarios. The resulting analysis is based upon four channels of economic impact, including the activities of the leasing firms themselves; retail services selling the new cars; manufacturers of UK-made cars; and manufacturers of UK-made engines in non-UK made cars.

Under the current scenario, or where no behavioural change is expected following the proposed change to the tax system, the economic impact of the employer-provided car market is approximately £3.6 billion per year in GVA, employing nearly 37,000 people through direct, indirect, and induced impacts. Total tax impacts were approximately £453 million.

reduction in taxes received by the exchequer. MAP amounts in excess of AFR amounts, however, reflect a tax preference being given to those using their car for business purposes. Where individuals use an employer-provided car, these preferences can be thought of as being embodied in reduced CCT relative to income tax.

[34] See https://www.gov.uk/government/publications/advisory-fuel-rates.

[35] This is .253 * £264 * 70,000. The low behavioural response scenario is 42% of this.

[36] This is .354 * £264 * 580,000. The low behavioural response scenario is 42% of this.

[37] Oxford Economics, at p.29-37.

Using the above analysis however, if the proposed changes were to be adopted, the potential effects across the leasing and rental industry and its supply chain (e.g. new car dealerships, car manufacturing, etc.), the resulting behavioural changes on the part of current employees taking an employer-provided car would lead to a decrease of up to 61,000 new car registrations, including up to 9,800 UK manufactured vehicles. This reduction in new car demand would also lead to a reduction of up to 9,500 jobs and £117 million in lost tax revenue. Both impacts would contribute to a total loss of up to £1 billion in UK GDP.

Closing comments

The BVRLA welcomes the opportunity to provide its experience, and that of its members, to the Government's consideration of salary sacrifice arrangements, as well as those on flexible benefit schemes.

Throughout this submission, we have cited extensive data and research in support of both the strength and progressive nature of the current system of taxation for cars provided to employers on a flexible benefits package. We have also highlighted the various benefits of continuing with the current system, and the risks to Government of making unnecessary changes to this system, including to current levels of tax revenue, as well as placing in jeopardy current targets related to climate change, air quality, and road safety.

The BVRLA appreciates that this is a complex issues, and would be happy to provide any additional information or clarification on any point presented in this submission, or present our views in person to any relevant official(s), if requested.

Appendix – how the data was calculated

To provide HMRC with both a contextualised appreciation of the current employer-provided car market, and a deeper analysis of the potential impact of these proposals on the marketplace, this submission is informed by commercial data provided by seven BVRLA members, who are major operators of employer-provided cars under salary sacrifice arrangements. These members are: Fleethire, Hitachi Capital Vehicle Solutions, Leaseplan, Lex Autolease, SG Fleet, Tusker, and Zenith Leasedrive.

The data provided by these seven members encompasses the total contracts for cars provided by the employer on a salary sacrifice basis. As the typical length of a contracts on a leased car (whether under a salary sacrifice, or cash alternative arrangement) is thirty six months, particular reference is made to those salary sacrifice arrangements on cars which were registered between tax years 2013-14 and the beginning of 2016-17 – a total of approximately 45,000 cars. This dataset has informed the key statistics presented in this submission regarding the salary sacrifice market and its participants (employers, employees, and the Government), and the cars provided under these arrangements. These statistics include:

- The current size of the market in employer-provided cars
- Total tax revenue provided to HMRC via salary sacrifice cars
- The socio-economic profile of those employees currently driving salary sacrifice cars
- How employers and employees currently using salary sacrifice arrangements for the provision of cars are likely to respond to the tax changes proposed in the consultation document
- The estimated economic impact as a result of these changes in employee behaviour, both in terms of tax revenue to HMRC, shifts in demand for new cars, and the resulting effect on the wider UK economy
- The estimated emissions impact as a result of these anticipated changes in employee behaviour (particularly on CO_2 and NOx emissions)
- The estimated impact on road and vehicle safety as a result of these changes.

To further ensure a rigid and economically sound approach is taken with the results of this data, the BVRLA has commissioned the economic analysis firm Oxford Economics to analyse the commercial data provided by the seven BVRLA member organisations, as well as available data concerning the remaining company car market. The demonstrable trends cited in this submission and the economic forecasts are based on this data have also been verified by

Oxford Economics. A copy of the final report by Oxford Economics is presented alongside this submission document[38].

In addition to the core dataset, we also use results from a survey of approximately 1,600 salary sacrifice car users in order to estimate what salary sacrifice users would do for business and personal travel if the availability of salary sacrifice schemes were curtailed. A copy of the results of this survey is also provided.

[38] Oxford Economics (2016); "The impact of proposed tax changes to the employer-provided car market".