

infocus

the newsletter from Intelligent Fleet

March 2007 - Budget Special



The devil is in the detail

When the Chancellor sat down after giving his 10th and final Budget speech, most commentators wondered how he was going to pay for what seemed to be a generous Budget, appealing to all sectors of the voting public. This was very much a 'feel good' Budget. The big headline was the 2% drop in the basic rate tax rate however, if we read the detail, most of the cost of this has been recouped through 'simplification and realignment' of other tax and National Insurance rates. **For the fleet industry and fleet operators, there were quite a few announcements – we'll cover the main points in this newsletter.**



"I can make you feel good"

Company Car Tax

The company car tax rates for 2009/10 have been frozen at the same rates as 2008/09 rates.

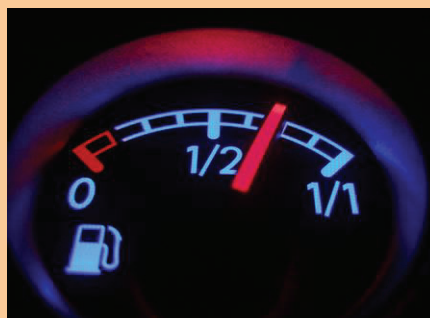
As previously announced, from 2008/09 the starting level of CO₂ emissions attracting the 15% tax charge will reduce from 140 g/km to 135 g/km. A new lower rate of 10% will also be introduced for all vehicles with CO₂ emissions of 120 g/km or below.



Budget 2007 also announced a 2% reduction for flexi-fuel vehicles capable of running on a high mixture of biofuel known as E85.

With regard to tax on private fuel benefit, the amount on which private fuel benefit is calculated will remain at £14,400 for 2007/08.

Road fuel duties



The 2007 Budget has outlined fuel duty rates for the next three years.

Main duty rates will increase by 2 pence per litre for 2007/08, deferred until 1 October 2007. They will increase by a further 2ppl on 1 April 2008 and then 1.84ppl on 1 April 2009.

The current biofuels duty incentive of 20ppl will be extended to 2009/10.

Tax relief on business cars

HM Revenue & Customs' review of the tax relief given for expenditure on business cars has been ongoing for some time. We appear to be approaching the end of the long and winding road with HMRC providing an update in the Budget detailing their preferred proposals.

For purchases of cars with CO₂ emissions of 120 g/km and below, it is proposed that these be given a 100% first year allowance. For cars from 121 g/km to 165 g/km, these may form part of the capital allowances pool for plant and machinery, receiving an allowance of 20% per annum. For cars over 165 g/km it is proposed that these go into a separate pool with a lower writing down allowance.

The proposals for leased cars look favourable. Currently, tax relief on lease costs are restricted on cars costing over £12,000. It is proposed that no restriction will apply to vehicles with CO₂ emissions of 165 g/km and below. For vehicles above 165 g/km, a fixed percentage restriction may be introduced. These proposals would mean that lease costs for high-spec BMW 3 series diesel costing £30,000, would receive full tax relief, instead of a 30% restriction under the current rules.

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Company cars get boost in cash v car debate



The reduction in the basic rate tax band and the increases in National Insurance arising through 'realignment' of rate bands mean that company cars will get a financial boost in the cash vs car debate.

Company car drivers and cash allowance takers will both benefit from the 2% reduction in income tax to apply from April 2008.

However, due to the fact that the upper earnings limit for NIC is being aligned with the higher rate tax band, people earning above the current £645 per week limit will pay more NIC on their salary and cash allowances.

The Chancellor needs to raise the NIC upper limit by about £5,000 to align it with the higher rate tax band. This increase will attract 11% NIC instead of 1% currently.

Update on the review of Employee Car Ownership (ECO) schemes

Budget 2006 announced that HMRC would review the taxation of ECO schemes and the benefits employees derive from them, with a view to possible changes. HMRC have concluded that there is a noticeable interaction between the tax treatment of ECO schemes, tax-free mileage allowances (AMAPs) and rates of company car tax, which may have contributed to the popularity of ECO schemes.

Furthermore, their review has suggested that some ECO schemes make extensive use of AMAPs to reduce their tax and NICs liabilities, which may provide a potential incentive to drive a greater number of business miles. The Government is therefore to consider the case for changing the structure of AMAPs to align the tax/NICs treatment and to ensure that rates and thresholds are set at an appropriate level to promote environmentally friendly travel. Further details could be announced in this year's Pre-Budget Report.

So, the uncertainty surrounding ECO schemes continues. Most of the fleet industry would have preferred some clear direction from the Government on this. Organisations with ECO schemes and those thinking about implementing a scheme should proceed with caution.

Vehicle Excise Duty

Petrol and diesel vehicles will be subject to the same VED rates. The most polluting vehicles (over 226 g/km CO₂) will see their duty rates increase to £300 per annum in 2007/08 (effective 22 March 2007) and £400 in 2008/09. Cars below 100 g/km will not be liable for VED and those up to 120 g/km will see their bill reduce by £15 to £35 per annum. There will be small increases for other VED bands.

About Intelligent Fleet

Intelligent Fleet is a specialist fleet consultancy aimed at providing leading-edge solutions to UK businesses. Our consultants are professionally qualified and have many years of fleet experience. We can advise in most areas of fleet provision, including:

- Fleet policy, including car benefit effectiveness, cash allowances, environmental impact and carbon footprint measurement
- Cost efficiency, including tax optimisation, funding arrangements including employee car schemes
- Management of occupational road risk including appropriate policies and procedures
- Operational delivery including processes, service levels, tender support

For further details visit our website at www.intelligentfleet.co.uk. Whether you are a fleet operator or fleet supplier, our consultants have the qualifications and experience to deliver practical workable solutions to your business.