

Company Car Tax: Security Enhanced Cars

Who is likely to be affected?

Individuals who, because of the nature of their employment, have a security enhanced company car which is made available for their private use.

General description of the measure

This measure excludes certain passive security enhancements from being treated as accessories for the purpose of calculating the cash equivalent of the benefit of a company car made available for private use.

Policy objective

This measure supports the Government's objective of a fair tax system by ensuring that individuals who are provided with security enhanced cars due to the nature of their employment are not unfairly impacted by the abolition of the £80,000 cap on the cash equivalent of the benefit.

Background to the measure

As part of reforms to the company car tax regime designed to incentivise purchases of the lowest emitting vehicles, the Government announced at Budget 2009 that the cap on the cash equivalent of the benefit of a company car would be removed with effect from 6 April 2011. The calculation of the cash equivalent of the taxable benefit where a company car is made available for private use is based on the list price and cost of any accessories provided as well as CO₂ engine emissions. Following removal of the cap, including the cost of certain security enhancements could make the taxable benefit disproportionately expensive.

The relief will be confined to those individuals who can demonstrate that the nature of their employment creates a threat to their personal security.

This measure has not been previously announced but we expect it to be welcomed by those affected.

Detailed proposal

Operative date

This measure will have effect for relevant benefits provided on or after 6 April 2011.

Current law

Part 3 of the Income Tax (Earnings and Pensions) Act 2003 sets out the types of earnings and benefits received by employees which are treated as taxable earnings under the benefit in kind rules. Chapter 6 of Part 3 covers the treatment of cars, vans and related benefits.

Proposed revisions

This measure will be introduced in Finance Bill 2012.

Section 120 provides that if Chapter 6 applies to a car in relation to a particular tax year, the cash equivalent of the benefit is to be treated as earnings from the employment for that year. Section 121 sets out how to calculate the cash equivalent of the benefit of the car. Step 2 of the calculation is to add the price of any accessories which fall to be included by virtue of sections 125-131 to the list price or notional price of the car.

Security enhancements do not currently fall within any of the four categories of excluded accessory set out in section 125. In particular, they are not equipment necessarily provided for use in the performance of the duties of the employment. This measure will treat certain security enhancements as excluded accessories. The particular enhancements are:

- armour designed to protect the car's occupants from explosions or gunfire;
- bullet-resistant glass;
- any modifications to the car's fuel tank designed to protect the tank's contents from explosions or gunfire (including by making the tank self-sealing); and,
- any modification made to the car in consequence of anything which is a relevant security feature by virtue of the proceeding three examples.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	negligible	negligible	negligible	negligible	negligible
This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.					
Economic impact	The measure has no significant economic impacts.				
Impact on individuals and households	<p>Most of the individuals with this type of protection will be senior employees in the public sector, for example members of the police and the Armed Forces.</p> <p>Some employees in the private sector might be affected because of the nature of the work they undertake, such as employees in the pharmaceutical industry, animal test laboratories, and some journalists.</p> <p>It is estimated that up to 100 individuals will be affected.</p>				
Equalities impacts	There is no impact on any protected equality group.				
Impact on business including civil society organisations	The change to the benefit calculation formula will result in a negligible additional burden on a very small number of employers in the public and private sectors. The overall compliance cost impact will be negligible.				
Operational impact (£m) (HMRC or other)	Any additional costs will be negligible.				
Other impacts	The Government has carefully considered other impacts but has not identified any.				

Monitoring and evaluation

The measure will be monitored and assessed alongside other measures in the Government's package for personal tax and benefits changes.

Further advice

If you have any questions about this change, please contact Su McLean-Tooke on 020 7147 2665 (email: susan.mclean-tooke@hmrc.gsi.gov.uk).

1 Cars: security features not to be regarded as accessories

- (1) ITEPA 2003 is amended as follows.
- (2) In section 125 (meaning of “accessory” and related terms) after subsection (3) insert –
 - “(3A) Subsection (2) needs to be read with section 125A (security features not to be regarded as accessories).”
- (3) After that section insert –
 - “**125A Security features not to be regarded as accessories**
 - (1) This section applies where a car made available to an employee has a relevant security feature.
 - (2) The relevant security feature is not an accessory for the purposes of this Chapter if it is provided in order to meet a threat to the employee’s personal physical security which arises wholly or mainly because of the nature of the employee’s employment.
 - (3) In this section “relevant security feature” means –
 - (a) armour designed to protect the car’s occupants from explosions or gunfire,
 - (b) bullet-resistant glass,
 - (c) any modification to the car’s fuel tank designed to protect the tank’s contents from explosions or gunfire (including by making the tank self-sealing), and
 - (d) any modification made to the car in consequence of anything which is a relevant security feature by virtue of paragraph (a), (b) or (c).
 - (4) The Treasury may by regulations amend the definition of “relevant security feature” in subsection (3).”
- (4) In Part 2 of Schedule 1 (index of defined expressions), in the entry for “accessory”, in the second column for “section 125(2)” substitute “sections 125(2) and 125A(2)”.
- (5) The amendments made by this section have effect for the tax year 2011-12 and subsequent tax years.

EXPLANATORY NOTE

CARS: SECURITY FEATURES NOT TO BE REGARDED AS ACCESSORIES

SUMMARY

1. This clause ensures that individuals who are provided with security enhanced cars made available for their private use, and who can demonstrate that the nature of their employment creates a threat to their personal security, are not unfairly impacted by the abolition of the £80,000 cap on the cash equivalent of the benefit on company cars made available for private use. It will take effect from 6 April 2011.

DETAILS OF THE CLAUSE

2. Paragraph 2 introduces new section 125(3A) into the Income Tax (Earnings and Pensions) Act 2003 (ITEPA). This provides that section 125(2) ITEPA (which deals with exclusions from treatment as accessories) must be read with new section 125A ITEPA.
3. Paragraph 3 introduces new section 125A. New section 125A(1) provides that the section applies to company cars with a relevant security feature. New section 125A(2) provides that the relevant security feature is not an accessory if it is provided as a result of a threat to the individual's personal security arising from the nature of their employment. New section 125A(3) sets out the types of relevant security features and includes any modification made to the car as a result of the enhancements (in order to make it roadworthy). Finally, new section 125A(4) provides an order making power to introduce further relevant security features should these be required in future.
4. Paragraph 4 deals with a consequential amendment to Part 2 of Schedule 1 to ITEPA (index of defined expressions).

BACKGROUND NOTE

5. The cash equivalent of the taxable benefit of a company car made available for private use is calculated on the basis of (list price + cost of accessories) x (the appropriate percentage (normally based on CO₂ engine emissions)).
6. Because of the nature of their employment, a number of individuals in both the public and private sectors are provided with company cars

that have been modified to accept security enhancements such as bullet proofed glass and armour plating. These are currently regarded as accessories for tax purposes and the value of the enhancements falls within the computation of the cash equivalent of the benefit. This may significantly add to the level of taxable benefit resulting in a disproportionate tax liability for some individuals.

7. Prior to 6 April 2011, there was an £80,000 limit on the list price and accessories calculation for the cash equivalent of the taxable benefit. This covered most security enhanced cars.
8. If you have any questions about this change, or comments on the legislation, please contact Su Mclean-Tooke on 020 7147 2665 (email susan.mclean-tooke@hmrc.gsi.gov.uk).