



TAX TREATMENT OF COMPANY CARS

- The Chancellor announced in his Budget Statement in March that he would consider changes to the tax treatment of company cars. A consultation document has now been published and this paper summarises the main proposals.
- The proposals would end the current dual approach, with different tax treatment for cars costing less than £12,000 and those costing more. Instead, all cars, regardless of cost, will be treated as part of a single company pool for tax purposes. More expensive cars will therefore no longer be treated separately.
- The pool would be subject to a first year capital allowance, rather than being written down over a period of time in the same way as other plant and machinery. The rate of allowance to be applied will be dependent on the car's CO₂ emissions – with the least polluting cars attracting a 100% first year allowance and very low allowances being applied to the most polluting vehicles. There will be a sliding scale between these two points but the lowest allowance to be applied will be considerably less than the current 25% depreciation rate.
- In addition, the Government is looking at amending the lease rental restrictions so that they only apply to either the first or last user rather than at all points in the leasing chain. This would help to remove a distorting effect on business finance decisions arising from tax changes.
- If approved, the proposals will be taken forward as part of the next Budget round and are unlikely to take effect until 2007/8.

Implications for Licensed Retailers

- The proposals would avoid the need to track and account for expensive cars separately for tax purposes. This is likely to reduce compliance costs.
- However, self employed car owners who partly use their cars for private purposes would still need to keep separate records of assets used for non-business purposes and are therefore unlikely to see any benefit from this change.
- The linking of capital allowances to emissions could result in tax advantages for companies switching to cleaner cars, however, any advantage may be reduced as a result of the pooling mechanism. This needs to be offset against the abandonment of the “reducing balance” depreciation mechanism for more expensive cars.

**KN
Ealing
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