

# June Budget 2010

## ...and its impact on your fleet.

As expected in Chancellor George Osborne's first Budget he has announced that VAT will increase by 2.5% to 20% on 4th January 2011, which improves the advantage of Contract Hire as a funding method for your company cars, despite the increase in cost.



### What's changed?

#### Value Added Tax (VAT) increases.

From 4th January 2011, the government is increasing the standard rate of VAT from 17.5% to 20%, which will impact on businesses running company cars.

#### Key impacts:

- The purchase price will increase if companies outright purchase their cars. If there is any element of private use, VAT cannot be recovered.
- The VAT disallowance on the finance element of lease payments will increase because where there is an element of private use, 50% of the VAT on the finance element is blocked.
- Although it hasn't been announced, we anticipate that the VAT fuel scale charge will increase which will impact businesses that offer private fuel to company car drivers.

From 4th January 2011, the lower rate of Insurance Premium Tax (IPT) increases from 5% to 6% and the higher rate will increase from 17.5% to 20% which will increase the cost of insurance.

The impact of the VAT increase means for your typical company car, the contract hire cost will rise by £3-£5 per month, whereas for outright purchase, the equivalent figure is likely to be doubled. Likewise, the impact for Employee Car Ownership Schemes (ECOS) and Contract Purchase is also likely to be similar to outright purchase.

These changes in VAT will mean your funding choice for your company car fleet might need to be reviewed. We can help you understand how these different funding methods will affect your business.

Appendix 1 shows a comparison of contract hire versus outright purchase for a selection of typical company cars on a discounted cash flow basis.

## What's changed?

### Employment Tax.

From 6th April 2011, employers National Insurance Contributions (NIC) will go up by 1%, as previously announced in the 2009 Pre-Budget Report. The government has announced in this Budget that the NIC threshold will increase by £21 per week above indexation, which increases the point at which employers start to pay Class 1 NIC, largely offsetting the 1% increase.

However, the Class 1A NIC on company car private use will still be affected by the 1% increase. In addition, for cars delivered after the VAT rate increase the Taxable List Price (TLP) will also rise.

As also previously announced, from the 6th April 2011 employees NIC will increase by 1% for employees earning approximately £44k per annum or more.

The impact of the employers NIC rate increase combined with the VAT rise means that the cost of Class 1A NIC on company car private use will typically go up by £3-£4 per month.

These changes mean it may be appropriate to review your company car purchase requirements before the end of 2010 and consider bringing these forward to partially avoid this impact.

### Corporation Tax.

From 1st April 2011, the main rate of corporation tax will be reduced from 28% to 27%. There will be a further 1% reduction each year to achieve 24% by 1st April 2014. The rate for small companies will be reduced to 20% from the current rate of 21% for the financial year commencing 1st April 2011.

For companies which run company cars with CO<sub>2</sub> emissions greater than 160 g/km, the reduction in corporation tax will have a marginally favourable impact on the cost of lease rental restriction.

### Capital Allowances.

From April 2012, the rate for Writing Down Allowances (WDAs) for cars purchased for business purposes will decrease from 20% to 18% where the emissions are between 111g/km and 160g/km of CO<sub>2</sub> and from 10% to 8% where emissions are above 160g/km of CO<sub>2</sub>. The WDA will remain at 100% where the emissions are 110g/km of CO<sub>2</sub> or less.

The impact of this change means that it takes longer to receive the full benefit of capital allowance relief for company vehicles. This has a similar effect for all purchasers of company cars irrespective of funding method.

### Other proposals.

Later this summer, the government is planning to undertake a study into the concept of fuel stabilisation in relation to fuel duty and fuel prices.



## Existing legislation from March 2010 Budget.

### Vehicle Excise Duty (VED)

VED Band	CO <sub>2</sub> (g/km)	2009-10* standard rate	2010-11 first-year rate	2010-11* standard rate
A	Up to 100	£0	£0	£0
B	101 - 110	£35	£0	£20
C	111 - 120	£35	£0	£30
D	121 - 130	£120	£0	£90
E	131 - 140	£120	£110	£110
F	141 - 150	£125	£125	£125
G	151 - 165	£150	£155	£155
H	166 - 175	£175	£250	£180
I	176 - 185	£175	£300	£200
J	186 - 200	£215	£425	£235
K**	201 - 225	£215	£550	£245
L	226 - 255	£405	£750	£425
M	Over 255	£405	£950	£435

\*applies to cars registered on or after 1st March 2001.

\*\*Band K includes cars that have a CO<sub>2</sub> figure over 225g/km but were registered before 23rd March 2006.

### Company car tax.

CO <sub>2</sub> (g/km)	Taxable percentage of list price		
	2010/11	2011/12	2012/13
0	0%	0%	0%
1-75	5%	5%	5%
76-99	10%	10%	10%
100-104	10%	10%	11%
105-109	10%	10%	12%
110-114	10%	10%	13%
115-119	10%	10%	14%
120-124*	15%	15%	15%
125-129	15%	15%	16%
130-134	15%	16%	17%
135-139	16%	17%	18%
140-144	17%	18%	19%
145-149	18%	19%	20%
150-154	19%	20%	21%
155-159	20%	21%	22%
160-164	21%	22%	23%
165-169	22%	23%	24%
170-174	23%	24%	25%
175-179	24%	25%	26%
180-184	25%	26%	27%
185-189	26%	27%	28%
190-194	27%	28%	29%
195-199	28%	29%	30%
200-204	29%	30%	31%
205-209	30%	31%	32%
210-214	31%	32%	33%
215-219	32%	33%	34%
220-224	33%	34%	35%
225-229	34%	35%	35%
230-234	35%	35%	35%
235 or over	35%	35%	35%

\*For vehicles with CO<sub>2</sub> emissions of 120g/km only, the relevant percentage is 10% for 2010/11 and 2011/12, rising to 15% for 2012/13.

#### Notes

1. Diesels  
The 3% diesel supplement to the percentage still applies but the percentage continues to be capped at 35%.
2. Hybrids  
Discounts available for early uptake Euro 4-standard diesel cars, higher-emitting hybrid cars and alternative fuel company cars will be abolished from April 2011.



## Existing legislation from March 2010 Budget.

### Company car private fuel.

The fuel benefit charge multiplier for private fuel for company cars is currently £18,000.

### Company van tax.

- The BIK charge where a van is used for private use (other than home to work travel), will remain at £3,000 in 2010/11.
- Where private fuel for the van is provided the fuel benefit charge is £550 for 2010/11.
- For zero emission vans the benefit charge will be set at £0 for the period 6th April 2010 to 5th April 2015.

In the case of both cars and vans, zero emission means vehicles which are incapable of producing CO<sub>2</sub> emissions under any conditions when driven.

### VAT fuel scale charge.

Where businesses recover VAT on fuel used for private motoring, the scale charge to be used from 1st May 2010 are shown below. We anticipate these will not change until January 2011.

CO <sub>2</sub> (g/km)	12 month period
120 or less	£570
125	£850
130	£850
135	£910
140	£965
145	£1,020
150	£1,080
155	£1,135
160	£1,190
165	£1,250
170	£1,305
175	£1,360
180	£1,420
185	£1,475
190	£1,530
195	£1,590
200	£1,645
205	£1,705
210	£1,760
215	£1,815
220	£1,875
225	£1,930
230 or more	£1,985

Figures are inclusive of VAT.

### Mileage rates.

Approved mileage rates for private cars (pence per mile).

Engine size	Up to 10,000 miles	Excess over 10,000 miles
All cars	40p	25p

From 1st June, the company car advisory fuel rates are as follows (pence per mile).

Engine size	Petrol	Diesel	LPG
1,400cc or less	12p	11p	8p
1,401cc - 2,000cc	15p	11p	10p
Over 2,000cc	21p	16p	14p



# We're here to help...

The Strategic Fleet Consultancy team can provide guidance on cost reduction and policy improvement initiatives designed to ensure that as the cost of motoring continues to rise, your provision of fleet is aligned to best practice and is fit for purpose.

If you have any questions about how any of these changes affect your fleet, please contact your Customer Relationship Manager or for a more detailed fleet review to identify cost saving opportunities, our Strategic Fleet Consultancy team is available to provide guidance on setting a fleet policy that works for you.

To find out more, contact our dedicated Strategic Fleet Consultancy team:

Call: **0844 824 0270**

Email: **fleetconsultancy@lexautolease.co.uk**

## Appendix 1.

The table below shows a comparison of contract hire versus outright purchase for a selection of typical cars on a discounted cash flow basis.

	Ford Focus Diesel Hatchback 1.6 TDCi Econetic 5dr	Volkswagen Passat Diesel Estate 1.6 Bluemotion TDI CR DPF 5dr	Audi A4 Diesel Saloon 2.0 TDI SE 4dr [Start Stop]	BMW 5 Series Diesel Saloon 520d SE 4dr
Contract Hire at 17.5%	£13,880	£14,712	£17,145	£17,497
Outright Purchase at 17.5%	£15,215	£15,972	£18,748	£19,484
Contract Hire at 20%	£14,091	£14,960	£17,459	£17,877
Outright Purchase at 20%	£15,557	£16,361	£19,221	£20,035
Advantage of Contract Hire @ 17.5%	£1,335	£1,260	£1,604	£1,986
<b>Advantage of Contract Hire @ 20%</b>	<b>£1,466</b>	<b>£1,401</b>	<b>£1,762</b>	<b>£2,158</b>
Further advantage of Contract Hire	£131	£141	£159	£171

These figures are indicative for a typical 3 year/60,000 mile contract and are based on some private use therefore include disallowable VAT at 50%.

ABOVE TABLE REVISED AUG 2010