EXPLORING VEHICLE TAXATION

EXCLUSIVE INSIGHT TO HELP FLEETS NAVIGATE CHANGES TO COMPANY CAR TAXATION.

The government has announced the introduction of tax and regulatory reforms on **6th April** as the UK aims to reduce its vehicle emissions. These changes have the potential to shape the future of the fleet industry, so it's important that fleet managers and leasing companies are able to manage them and seize the opportunities they present.

At ŠKODA, we are committed to creating a sustainable future, so much so that a quarter of our entire range will be electric by 2025. As part of this promise, we are helping businesses prepare for the arrival of these changes.

This whitepaper has been created to simplify the reform and offer exclusive and expert insight into the evolving fleet landscape.

A quarter of our entire range will be electric by 2025

Businesses have many questions about the changes. Why are they being introduced? What do they entail? How should a company prepare?

To help us answer these questions, we spoke with industry expert, **Mark Jowsey,** who is the Manufacturer Liaison Director at automotive consultancy, KeeResources. With over thirty years of fleet experience, he shared his thoughts with us.

THE JOURNEY SO FAR

NEDC (New European Driving Cycle) was the previous European standard for testing vehicle emissions. It was last updated in 1997 before being discarded in August 2017 because it was a test conducted in an ideal driving environment. In other words, the test did not represent normal driving conditions, with the figures published unachievable in the real world.

To address this issue, WLTP (Worldwide Harmonised Light Vehicle Test Procedure) and RDE (Real Driving Emissions) were introduced in September 2017. This replaced the old NEDC test.

While WLTP is conducted under laboratory conditions, it measures faster speeds, longer distances and more dynamic driving conditions to calculate figures reflective of a real world driving environment.

The RDE test complements WLTP. This is held on rural and urban roads and motorways, measuring uphill and downhill driving in addition to various vehicle payloads. This wide range of driving conditions makes for a far more accurate and realistic set of results.

As of January 2020, RDE2 was introduced. It has more stringent NOx targets and is mandatory for models introduced from January 2020 and mandatory for all new registrations from 2021.

The RDE test complements the WLTP.

Alongside these more stringent tests, a number of tax reforms are set to be introduced in April, which incentivise the use of lower emission vehicles.

Changes to Benefit in Kind (BiK) will arrive. Zero emission vehicles will be relieved of this tax entirely for tax year 20/21. For 21/22, BiK rate is 1% and 22/23 it is 2%, while plug-in hybrids registered after 6th April with CO2 emissions between 1-50g/km will be taxed between 3-12% (tax year 20/21) instead of 16%. A 4% BiK levy will continue to apply to diesel vehicles that are not RDE2 compliant, having been introduced into BiK in 2018.

From 6th April, the government will base its CO2 figures used to calculate vehicle tax rates on WLTP data instead of NDEC derived information.

Under the WLTP and RDE2 tests, many vehicles registered on or after 6th April will see a significant increase in CO2 emissions and subsequently, their BiK rate.

In addition, Vehicle Excise Duty (VED) rates will also change, this time on 1st April 2020. Zero emission cars will become exempt from this road tax, but vehicles that produce CO2 will be taxed at a higher rate depending on their emissions.

These changes are part of the government's wider plan to lower the UK's vehicle emissions.

I expect businesses that embrace electric and plug-in hybrid vehicles to reap the benefits of doing so. The availability of plug-in hybrids, in particular, make these a viable and realistic option.

MARK JOWSEY

BiK

Plug-in hybrids with CO2 emissions between 1-50g/km will be taxed between 3-12% for vehicles registered after 6th April 2020, instead of 16%

ROAD TAX

Lower emissions vehicles, such as plug-in hybrids will pay lower VED, with zero emissions vehicles exempt.

TIMELINE OF THE CHANGES

1997
NEDC last updated.

SEPTEMBER 2017
WLTP arrives, with every new car to market in the EU subject to the test.

APRIL 2018
HMRC introduces a 4% levy for diesel models not compliant with RDE2. This will be added to the BiK rate based on the vehicle's NEDC derived CO_2 emissions.

APRIL 2018
Government introduce first year VED hike for all new diesel cars that do not meet RDE2 standards. Vehicles will move up a band if they are not compliant.

SEPTEMBER 2018
All new cars registered will have to pass the WLTP test before they go on sale.

SEPTEMBER 2019
RDE1 is implemented, allowing cars to emit 2.1 x the target level of NOx.

JANUARY 2020
RDE2 is enforced and is mandatory for all new models on sale. It reduces the target level of NOx to 1.5 x the target.

APRIL 2020
From 1st April, VED will be calculated on WLTP CO_2 figures rather than NEDC derived figures, with many models seeing a significant increase in CO_2.

APRIL 2020
From 6th April, BiK will be calculated on WLTP CO_2 figures rather than NEDC derived, with many models seeing an increase in CO_2. This will only affect vehicles registered on or after 6th April. It will not be retrospectively applied to vehicles registered before this date. This means for a period of time there will be 2 sets of BiK rates used - one for vehicles registered before 6th April (based on NEDC derived) and one for vehicles registered after 6th April (based on WLTP).

JANUARY 2021
RDE2 becomes mandatory for all new registrations.

WHAT DO THE CHANGES MEAN FOR BUSINESSES?

In simple terms, businesses and users that do not adopt low emission vehicles from 6th April will be subject to higher vehicle taxation. Not only do these changes incentivise using electric and hybrid cars, they also serve as an important reminder that the cost of purchasing less economical vehicles will increase on this date.

> These reforms - which are all connected to CO2 emissions one way or another - could have a big say on the future of fleet policies. Businesses have decisions to make about the vehicles they procure, with emissions levels playing a more important role than ever before.
>
> **MARK JOWSEY**

However, businesses must think about who is using the vehicle and choose it based on the powertrain that is fit for purpose. Companies should also consider the additional levies for vehicles that are not RDE2 compliant, given they will incur increasing costs for the user and the business.

The changing regulations do make adopting electric vehicles an attractive option. That said, in advance of fully electric vehicles arriving in volume, plug-in hybrid powertrains are more readily available and will also contribute to significant savings.

Is this the end of the road for diesel and petrol?

While the government has announced a ban on diesel and petrol powertrains from 2035, conventionally powered vehicles are still likely to be widely used in fleets in the next decade.

Ban on diesel and petrol powertrains from 2035

> The move towards hybrid and electric vehicles is undeniable, but conventionally powered cars have not had their day. However, businesses do need to think about an individual's job role and subsequently their vehicle requirements so they can identify a powertain that is fit for purpose.
>
> **MARK JOWSEY**

HOW ARE BUSINESSES PREPARING?

Up to this point, companies have struggled with the availability and complexity of WLTP data and the incoming regulations, as Mark explains:

> I've not encountered many fleet operators who have changed their policy. With 6th April imminent, these businesses need to consider which route they will take. Do you simplify fleet policy in the short-term while these changes bed in or try to unravel the complex information and incorporate it into your fleet policy in what is a very short timeframe?

Duty of Care considerations

Tax implications aside, businesses have a responsibility to their employees to provide safe, fully insured and serviced vehicles that are maintained to the highest standards. While these regulatory changes might be considered disruptive, they do present an opportunity for companies to regain control of their fleet by swapping cash allowance and grey fleet for traditional company cars.

Meanwhile, the businesses that get to grips with the reforms and embrace hybrid and electric vehicles will reap the benefits of running an environmentally friendly fleet. After all, reducing emissions will help a business meet its sustainability and CO2 targets. In turn, by providing employees with lower emitting vehicles, a company will pay less tax, therefore making the company car an attractive proposition for individuals taking cash alternatives.

> See the reforms as an opportunity - a chance to run a more environmentally friendly fleet and one that you can have better control of. Achieve this and you'll likely reduce costs, reduce risk associated with grey fleet and meet key corporate social responsibility targets.
>
> **MARK JOWSEY**

A proactive approach to these reforms will allow fleets to seize opportunities and allow for a smoother implementation. Aside from that, what specifically can businesses do to manage these changes?

Think strategically

Build a fleet that is fit for purpose. While companies will be inclined to procure electric vehicles, it is important that a fleet is able to meet the requirements of the business. Consider all powertrains and measure them against the business needs.

Consider availability

Zero emission vehicles are the future, but supply does not currently fulfil demand. For many businesses, plug-in hybrids - of which there is a wider availability - tick every box.

Explore costs

Balance fleet needs around the changes. Identify the vehicle that suits the requirements of each individual job role. Then choose the most cost effective powertrain, taking the incoming changes into consideration. In addition, sourcing vehicles with a lower P11D value can be used to further manage the cost associated with a fleet vehicle.

Apply emissions limits

Consider enforcing emissions limits to your fleet, which will reduce overall CO2. This will help lower your fleet costs and likely align with corporate social responsibility objectives.

Regain control

As challenging as these changes may be, they allow businesses to regain control of their fleet, their overall emissions, not to mention costs and duty of care targets.

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To discuss your specific fleet requirements and for further advice around preparing for these changes, please contact ŠKODA.

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Figures shown in this document are for comparability purposes; only compare fuel consumption and CO2 figures with other vehicles tested to the same technical procedures. These figures may not reflect real life driving results, which will depend upon a number of factors including the accessories fitted (post-registration), variations in weather, driving styles and vehicle load. There is a new test used for fuel consumption and CO2 figures (known as WLTP). The CO2 figures shown however, are based on a calculation designed to be equivalent to the outgoing (NEDC) test cycle and will be used to calculate vehicle tax on first registration. Choice of wheels and other options may affect fuel consumption and emissions data. For more information, please see **skoda.co.uk/owners/wltp-info** or consult your retailer. For fuel consumption data based on the outgoing test cycle (NEDC equivalent data), which is the 'official' UK fuel consumption data until 31.12.18, please consult your retailer. ŠKODA UK may change RRPs at any time (this includes where there are government changes in regulation and/or legislation). There may be a delay to any RRP displaying correctly on our materials. Always obtain prices from your chosen ŠKODA Retailer.

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