PCG
PROFESSIONAL CONTRACTORS GROUP

Response to the consultation paper: "Modernising tax relief for business expenditure on cars"

Introduction

The Professional Contractors Group is the cross-sector representative body for freelance contractors and consultants in the UK. Its members operate their own one or two-person companies and provide their services to a range of clients. They work in IT, engineering, project management, oil and gas extraction, marketing and many other sectors.

The UK's freelance contractors and consultants are a highly skilled, highly flexible and highly mobile workforce. The UK's model of freelancing is uniquely sophisticated and, by affording companies the ability to acquire specialist skills on a flexible basis, offers the UK a meaningful competitive advantage, particularly in the knowledge-based industries on which its future growth depends.

PCG's members are among the 1 in 7 workers in the UK who choose to work for themselves in some way. They sit outside the traditional divide of employer and employee; as part of the "third way" of working, they are therefore often overlooked in the policy discourse, which remains dominated by the traditional dichotomy.

The consultation document "Modernising tax relief for business expenditure on cars" states the Government's proposals to alter tax relief rules on company cars. In noting the Government's concurrent fiscal and environmental objectives in changing the rules, PCG agrees with the Government that, of the options presented on page 9, Option 3 is the best option for compliance cost savings. While the proposed changes are unlikely to have a significant impact on PCG's members (due to the small size of their businesses) this response will outline several areas where they could impose burdens. It will also briefly consider issues on which we feel further clarification from the Government is desirable.

Burdens and savings for freelance contractors and consultants

The Government's aim is to provide businesses with compliance cost savings by removing the necessity for them to account for every company car they own with a price in excess of £12,000 in a separate asset pool. Instead, a new single car pool will be created for all cars, regardless of price. PCG agrees with the Government, though, that self-employed car-owners are unlikely to see compliance cost savings as the nature of their work requires them to account for each individual asset separately anyway.

However, as the paper also states, freelancers who own cars entirely for business use, or who provide company cars to employees, will see a benefit in the change in the rules. They will now be able to account for these vehicles in the new car pool regardless of the vehicle's price.

PCG would like to add its voice to the observation that any change to the current rules would "involve one-off costs to businesses from changing their systems to cope with the new rules, e.g. learning new rules, upgrading software, form filling, staff training, etc…" This is likely to be of greater burden to PCG's members than most other businesses, as our members employ few, if any, additional staff to help with administration and taxation issues.

Another facet of company car rules covered in the paper concerns the rental restrictions distortion, which hinders those businesses wishing to rent rather than purchase cars. PCG agrees with the paper that, "this restriction may particularly deter smaller businesses from entering the car hire market, as they may not have the capital to purchase cars outright and are therefore more likely to be subject to the lease rental restriction." The Government admits that this is in need of reform,

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but that any change in the current rules may result in unacceptable adverse effects on the Exchequer. However, any change that could be implemented within the necessary fiscal margins that would result in an even playing field for those wishing to rent vehicles would be both better and fairer.

Points on which clarification is desirable

The paper calls for views from businesses on: “whether the compliance cost benefits for the self-employed car owner, who is subject to the private use adjustment rules, would be more limited than those for unincorporated businesses that are not subject to those rules.” PCG is unclear about the consultation document’s exact meaning here. The passage rightly says that self-employed car-owners have to calculate what proportion of their use of their vehicles is for business use and how much is for private use. It is unclear, however, which businesses the Government has in mind when discussing “unincorporated businesses that are not subject to [private adjustment] rules”, as all unincorporated businesses must abide by these rules.

It is the Government’s prerogative to seek to prevent businesses providing their employees with unnecessarily expensive cars. PCG recommends, however, that there should be a distinction between company cars provided for commuting, and those specifically required by the nature of a business.

Proposed environmental incentives

The Government suggests that the new rules on First-year allowances should provide an incentive for those self-employed seeking to purchase company cars to buy cars with low CO_2 emissions. It is PCG’s view, however, that self-employed persons whose business requires them to use cars with relatively high CO_2 emissions, such as off-road vehicles and pick-up trucks, will find this unhelpful. If the nature of their work means that using environmentally ‘un-friendly’ cars is a necessity, the new rules will place increased burdens on such people.

Finally, the Government’s preferred option of changing the current rules to include an incentive for businesses to purchase environmentally-friendly cars will require a banding structure matching levels of CO_2 emissions to various First-year allowances. As the paper states, there are existing structures in place within the tax system that could be copied, such as the Vehicle Excise Duty (VED) system, the “Green Car Label” system and the company car tax regime. It seems to PCG to be unnecessary to create a new banding structure when there are several already in place. A proliferation of different banding structures for different purposes is likely to create confusion. In order to keep changes to the rules on company car tax relief simple, the Government should use a structure with which businesses are already familiar.