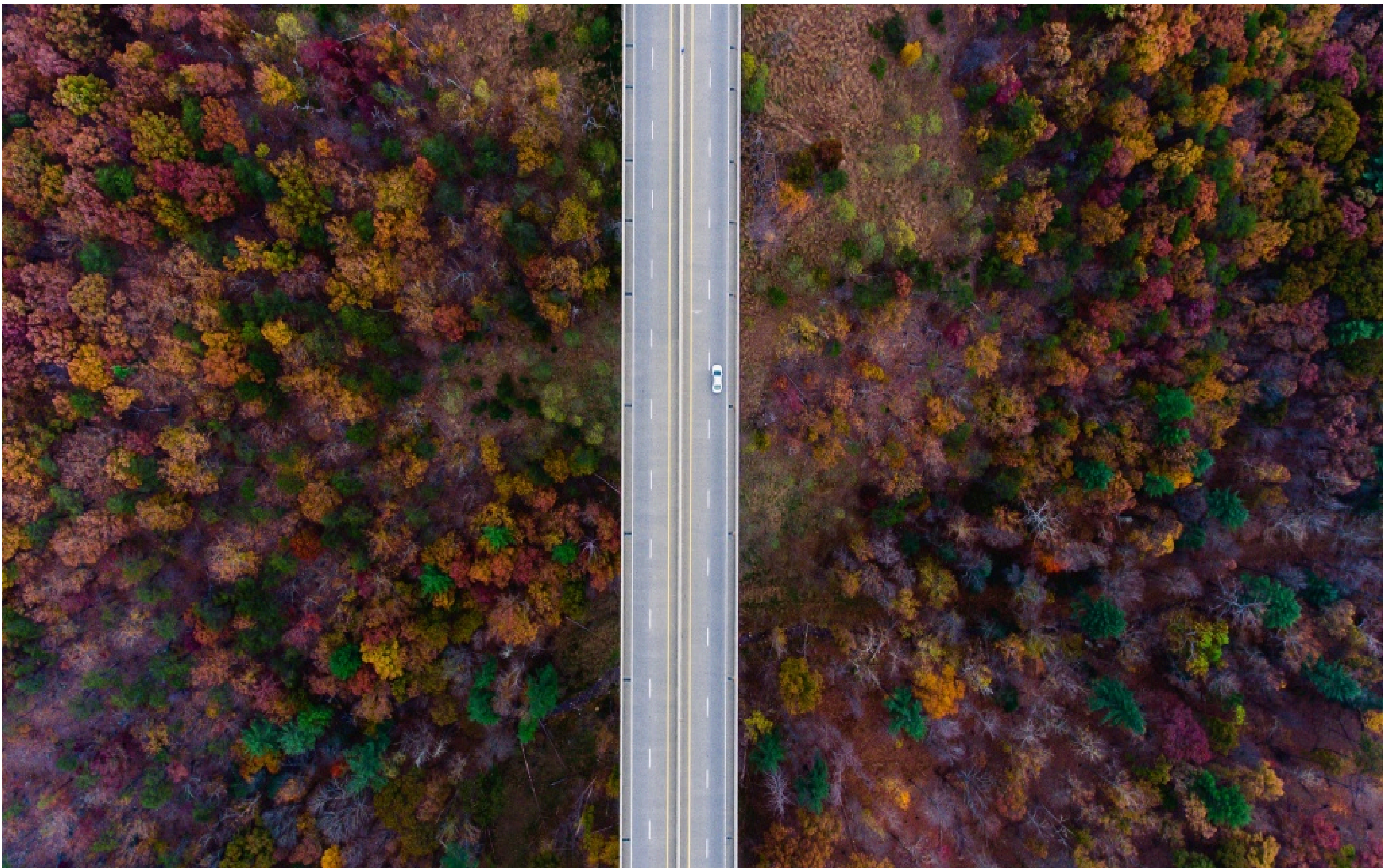
Autumn Budget 2017

LeasePlan UK Consultancy Services



Foreword

It's almost a cliché to describe a Budget as a 'mixed bag'. But Philip Hammond's Autumn Budget really was a mixed bag for fleets and their motorists.

On the one hand, there was a continuation of the Fuel Duty freeze that has been in place since 2011, along with a lot of extra money to support electric motoring. On the other, we received no confirmation of the Company Car Tax rates for 2021-22 and beyond, and there were also tax hikes for diesel vehicles.

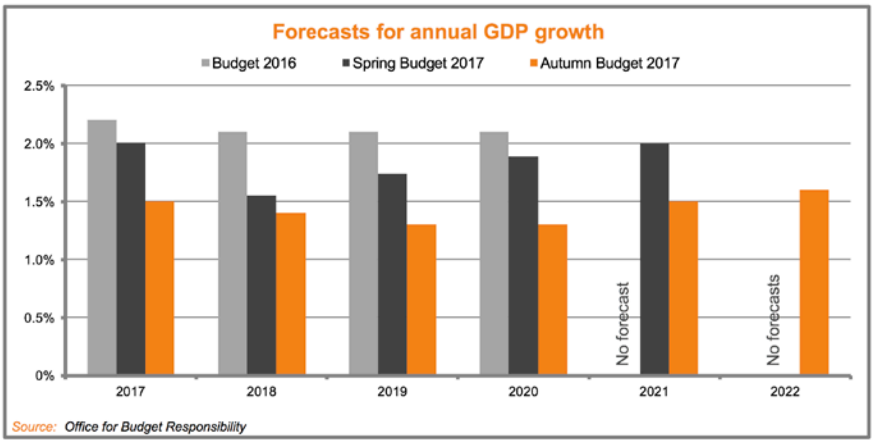
We have detailed all of these policies – and more – in this briefing document. It's everything you really need to know about the Budget, in a form that's far more digestible than the Budget itself. We hope it helps guide you through the financial year ahead.

Matthew Walters, Head of Consultancy and Data Services, LeasePlan UK

The Economic and Fiscal Forecasts

Alongside every Budget, the independent Office for Budget Responsibility (OBR) publishes a new set of economic and fiscal forecasts, which underpin the Government's decisions. Here is a summary of the latest.

Growth



Last November, the OBR was forced to downgrade its forecasts for economic growth due to the economic uncertainty and depreciation of the pound that followed the EU referendum. Now, unfortunately, it has had to downgrade them again. GDP growth is expected to slow to 1.5% this year, 1.4% in 2018 and 1.3% in 2019. Overall, the economy is projected to be 2.1% smaller in 2021 than it was in the March forecast. The OBR puts this down to continued uncertainty around Brexit, as well as the Government's ongoing fiscal consolidation.

The public finances

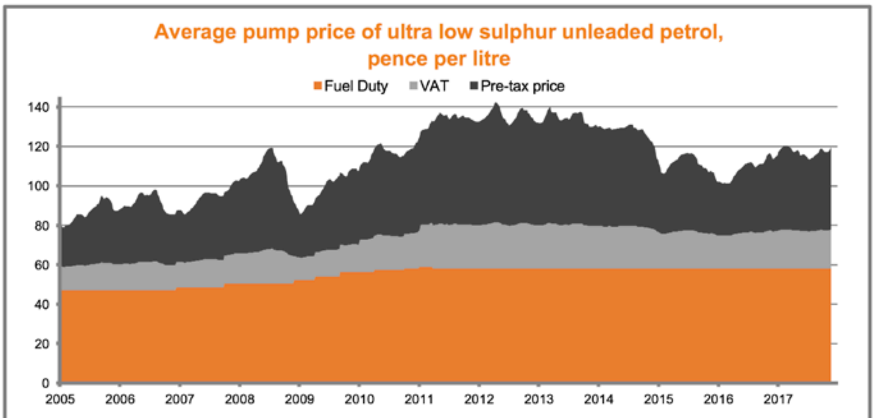
Last year, Hammond set himself three new fiscal rules, enshrined in his Charter for Budget Responsibility. These were: to cut the structural deficit to less than 2% by 2020-21; to have Government debt falling as a proportion of GDP in the same year; and to keep welfare spending in 2021-22 below £126 billion.

According to the OBR's new forecasts, Hammond is on track to meet the first two of these targets, with a structural deficit of 1.3% in 2020-21 and the debt-to-GDP ratio falling from 2018-19 onwards. However, spending subject to the welfare cap is set to hit £126.9 billion in 2021-22, slightly above the cap but within the 3% 'margin' allowed by the Charter.

Policies for motorists

2017 has already seen a number of policies affecting motorists and fleets, from new Optional Remuneration Arrangement rules to the publication of the Air Quality Plan. The Autumn Budget added more big changes, as well as revealing some tax rates for the next financial year.

Fuel Duty



Source: Department for Business, Energy & Industrial Strategy

The rate of Fuel Duty for petrol and diesel has been frozen at 57.95 pence per litre since March 2011. It was scheduled to rise in line with inflation in April 2018, but Hammond once again cancelled that rise and extended the freeze for an eighth consecutive year. The rate will therefore remain at 57.95p per litre until April 2019.

This sort of announcement on Fuel Duty has become so familiar that it is easy to overlook the magnitude of the Chancellor's decision. Cancelling the April 2018 rise alone will cost the Exchequer around £850 million a year. Altogether, the various Fuel Duty announcements since 2010 will reduce revenues by around £10 billion a year by 2021-22.

Nevertheless, this is money well spent. Pump prices have been rising sharply in recent months, with petrol up 6p per litre and diesel up 8p per litre since July. The Chancellor's decision to continue the Fuel Duty freeze will therefore come as a welcome relief to motorists.

Diesel taxes

In his Spring Budget in March, the Chancellor revealed that the Government was considering changes to the taxation of diesel vehicles, and promised an announcement on this in the Autumn Budget. That announcement came in two parts: higher first-year Vehicle Excise Duty (VED) rates for new diesels, and an increase to the existing diesel supplement for Company Car Tax (CCT).

People buying diesel cars registered after 1 April 2018 will face higher first-year VED rates than those buying petrol cars with the same carbon dioxide (CO_2) emissions. The new first-year rates are shown in the table on the right.

In addition, the Chancellor has increased the diesel supplement applied to CCT rates from 3 percentage points to 4. This will apply not only to new diesel company cars, but to all those registered since 1998.

First-year VED rates for cars registered on or after 1st April 2017

CO_2 emissions (gCO_2/km)	2017–18	2018–19	
		Petrol	Diesel
0	£0	£0	£0
1–50	£10	£10	£25
51–75	£25	£25	£105
76–90	£100	£105	£125
91–100	£120	£125	£145
101–110	£140	£145	£165
111–130	£160	£165	£205
131–150	£200	£205	£515
151–170	£500	£515	£830
171–190	£800	£830	£1,240
191–225	£1,200	£1,240	£1,760
226–255	£1,700	£1,760	£2,070
>255	£2,000	£2,070	£2,070

The diesel rate only applies to those diesels that do not meet the RDE2 standard.
Source: HM Treasury

However, Hammond has made two important exemptions to these diesel tax rises. The first is that the changes will not apply to vans. The second is that new, cleaner diesels that meet the Real Driving Emissions step 2 (RDE2) standard will not have to pay the higher VED rates, nor the CCT supplement. This is a welcome recognition that modern diesels are becoming much more environmentally-friendly and still have an important role to play in the future of motoring.

Clean Air Fund

The Chancellor has earmarked £220 million of the money raised by these diesel tax increases for a new Clean Air Fund. Councils will be able to bid for a share of this fund, to help them implement measures to tackle air pollution. 29 local authorities will have to publish their clean air plans next year, and they could use this money to invest in new charge points, subsidise public transport, or fund other similar policies.

Alongside the Budget, the Government has launched a joint consultation on measures to support businesses and individuals affected by local clean air policies. It is seeking suggestions on how to encourage the use of car-sharing, public transport and low-emission vehicles. It is also inviting views on discounts or exemptions to Clean Air Zone fees, as well as the possibility of a targeted scrappage scheme for the oldest, most polluting vehicles.

Electric vehicles

Hammond amply demonstrated his support for low-emission vehicles by promising to make 25% of the Government's fleet electric by 2022. He also built on previous announcements with additional funding for electric cars and charging infrastructure. He provided £100 million to keep the Plug-in Car Grant going until 2020, helping to reduce the up-front cost of an electric car. He also pledged £200 million of Government money to roll out more charge points across the country, to be matched by another £200 million from private investors. And he clarified that, from April 2018, employees will not face any benefit-in-kind tax on the electricity they use to charge their vehicles.

Company Car Tax and Vehicle Excise Duty

Businesses and employees had hoped that the Chancellor would use this Budget to finally reveal the CCT rates for 2021-22, and maybe even 2022-23. They were left disappointed. Hammond did not offer any detail beyond the 2020-21 rates published last December. This is a major omission, given that most new leases signed today will run until 2021-22 or beyond. The Chancellor should publish the rates for 2021-22 and 2022-23 as a matter of urgency, if not in the impending Finance Bill then in his Spring Statement.

On the other hand, Hammond did provide some welcome clarity on CCT and VED, with regards to the new emissions testing regime that began in September. He confirmed that CO_2 emissions figures from the old New European Driving Cycle (NEDC) tests will continue to be used to calculate CCT and VED rates until April 2020, from which point the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) results will be used instead.

The Chancellor also announced that the VED rates for cars registered before April 2017 will rise in line with inflation in 2018-19. For most drivers, that means they'll be paying £5 to £10 more in VED next year than they are in 2017-18.

Other policies

Of course, the Budget contains policies that aren't just designed for motorists, but will nonetheless affect people in and around the leasing industry. These include:

Business taxes

Ahead of his Spring Budget, the Chancellor faced a revolt over Business Rates. He acted then, and he's acted now. As of April 2018, Business Rate increases will be linked to the main measure of inflation, the Consumer Prices Index (CPI), rather than the higher Retail Prices Index (RPI). According to the Treasury's calculations, this will save businesses a collective £520 million a year.

But as Hammond gives to businesses with one hand, he takes with the other. He has frozen the 'indexation allowance', a form of Corporation Tax relief that they can claim when selling an asset. That move is projected to cost businesses £525 million a year by 2022-23.

Income Tax

At this year's General Election, the Conservatives promised to raise the tax-free personal allowance to £12,500 by 2020. In this latest Budget, they took another step towards that goal. The threshold for paying Income Tax will be raised to £11,850 in April 2018, from its current £11,500. This will save a typical basic-rate taxpayer £70 next year.

Similarly, the Conservatives also pledged to raise the threshold for paying the higher rate of Income Tax to £50,000 by 2020. As part of that effort, this will be raised to £46,350 in April 2018, from its current £45,000.

Housing

Housing was a major theme of the Budget, and for two good reasons. First, there's the simple fact that the supply of housing needs to be drastically increased to meet the demand for it. Second, the Chancellor hopes that a programme of housebuilding will provide work for construction companies, and thereby ease some of the country's productivity problems.

For these reasons, the Budget allocated an extra £15.3 billion for housing projects over the next five years, bringing the total support package up to £44 billion. In terms of bricks and mortar, the Government is targeting 300,000 new homes a year.

However, the Chancellor's most eye-catching housing policy was the one he left for the end of his Budget-day speech: the instant abolition of Stamp Duty for all first-time buyers spending up to £300,000. This relief will also apply to the first £300,000 of first-time properties costing up to £500,000.

Sources and further reading

- *Autumn Budget 2017*, HM Treasury
- *Overview of Tax Legislation and Rates: 22 November 2017*, HMRC and HM Treasury
- *Economic and fiscal outlook: November 2017*, Office for Budget Responsibility
- *Fuel Duty: September 2016*, LeasePlan UK
- *Budget Report: March 2017*, LeasePlan Consultancy Services
- *Diesel Briefing 2017: What's next for diesel?*, LeasePlan UK
- More coverage of Autumn Budget 2017 can be found at insights.leaseplan.co.uk

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