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→ PM Office



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Agreed note

PRIME MINISTER

PM's Minute  
The principle of taxing  
free petrol was announced  
in the Budget - and of course  
approved by you. The Chancellor

has announced <sup>the amount</sup> ~~the~~  
today the method: after con-  
siderations, he has decided on a  
'scale' method. If a driver  
uses less petrol than the scale  
amount, he can apply for an  
individual assessment.

TAXATION OF BENEFITS IN KIND - FREE PETROL

In my minute of 6 March I explained the background to  
the proposal announced in my Budget Speech to bring petrol  
provided for higher-paid employees and directors driving  
company cars into charge to tax from April 1982. I should  
mention that there are currently two representative cases  
before the Commissioners on the question of liability in this  
field under the law as it now stands. In my speech I said  
that the Inland Revenue would be consulting over the various  
methods by which the various methods of taxing free petrol  
could be done. These consultations are complete and I can  
now inform you of what I propose.

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2. A consultative document (of which a copy is attached)  
was issued in March canvassing three possible options: to  
tax petrol (a) on the basis of the actual amount provided for  
the employee's private use; (b) on the basis of some statutory  
formule eg so much per mile driven; or (c) by reference to  
a scale similar to those already used in relation to car benefits.
3. Those who responded to the consultative document were  
substantially in favour of a scale although some, notably the  
Association of British Chambers of Commerce and GEC, favoured  
the 'actual' method. The main factors which appear to have  
weighed with respondents are equity (or the lack of it);  
administrative simplicity; and experience with the car scales,  
which have of course fallen far below the true value of the benefit

/There is no doubt



4. There is no doubt that in theory the actual method is the most equitable, and that there is very little equity about a scale system. However, the Inland Revenue experience up to 1976 in relation to cars was that the 'actual' charge degenerated into a sort of ad hoc scale. I am not therefore convinced that an 'actual' basis, if enacted, would necessarily lead to equity in the charge.
5. However, the most potent factor which persuades me in favour of a scale is the question of administrative costs. Tentative Revenue figures put a cost on an 'actual' charge of about 250 extra civil servants (against about 50 for a scale).
6. As you know, in relation to car benefits the Finance Bill contains a provision which enables employers to apply PAYE directly (without the need for the tax office to notify a change of code number). I propose to extend this provision to cover petrol benefits and it is this that should enable the job to be done at a relatively small cost to the Revenue.
7. I have therefore authorised the Inland Revenue to prepare an amended clause with schedule for the Finance Bill introducing a scale charge for petrol for use in company cars. This will remove the doubts which have existed about the present law and which might not be resolved even if the Revenue were successful in the 'representative' cases at present awaiting hearing. The scale, which would consist of three points, would be related solely to engine size and follow the bands already adopted for the car scales - up to 1300cc, 1301-1800cc, over 1800cc.
8. The scale would be a measure of rough justice and I propose that for 1982-83 (the first year) the level of the scale should match the first three points of the car scale proposed for that year - £270, £360, £540. These figures are, I hope sufficiently

/high to act as a



high to act as a deterrent where it has not hitherto been the practice of an employer to provide free petrol, but not so high that they can be regarded as punitive. For the 'tool of the trade' driver who does more than 18,000 business miles a year the scale would be halved, and where the employee pays for all private petrol the scale would be extinguished.

9. The original proposal as explained in the consultative document was for 'a single, unified system covering all directors and higher-paid employees'. In the course of the consultative process it became apparent however that, while a scale would work quite well in relation to cars provided by employers, there were severe problems in applying a scale to petrol provided for directors' and employees' own cars. The position there is that there has always technically been an 'actual' charge available, but there is scope for evasion. The Revenue will be tightening up their practice in that area.

10. Inevitably employers will object that as a result of these proposals the burden of operating the tax system is being transferred to them and that savings in the Revenue will have to be paid for by them. And, even with a scale system, employers will need to keep some sort of records of petrol provided and of reimbursements. Some complaint must therefore be expected against our decision to press ahead with such a system. But there can be no question of our drawing back now on the principle of the charge; we could not defend continued inaction in the face of the present situation. So we are only talking about the form of the action - and on that point the consultations showed the CBI and the Institute of Directors as favouring a scale.

11. I had hoped that it might have been possible to introduce the amended clause and schedule at Committee Stage but for technical reasons that we not possible, and they will now be introduced at Report and announced tomorrow (9 July).

postponed  
until  
Friday, 10 July

TL.

gm.

8 (G. July 1981

PETROL PROVIDED BY EMPLOYERS

METHODS OF BRINGING THE BENEFIT INTO TAX

A CONSULTATIVE DOCUMENT

1. The Chancellor announced in his Budget Speech that the benefit of free petrol for directors and higher paid employees for their private use, however provided, should be brought into charge to tax. This document outlines the various methods which might be employed to achieve this and is designed to elicit views on these methods, rather than the proposal itself. In particular, it canvasses the administrative problems likely to be thrown up by these methods for employers and employees, as well as for the Inland Revenue.
2. For the purpose of this document 'petrol' includes petrol, oil, diesel and other substances used as fuel for motor vehicles.
3. The Revenue's ability to raise a charge under the general Schedule E rules varies according to the method by which petrol is provided for an employee's private use; and the effects of the benefits legislation contained in the 1976 Finance Act (which applies only to sums not otherwise chargeable to tax) vary according to whether petrol is provided for use in the employee's own car or in a company car to which Section 64, Finance Act 1976 applies. It is proposed to introduce a single, unified system covering all directors and higher paid employees.
4. The method adopted could take one of three forms -
  - (i) Quantification of the benefit by reference to the actual cost incurred by the employer in supplying petrol to the extent that it is used for private, as distinct from business, purposes (the 'actual' method);
  - (ii) the use of formulae agreed locally for application to individuals or groups of employees receiving petrol from particular employers, (the 'formula' method); and
  - (iii) a scale, similar to the scale used for measuring the benefit from a company car (the 'scale' method).

The 'actual' method

5. This would involve the employer in keeping records for each employee concerned of the cost of petrol provided for him and returning the particulars to the Inspector after the end of the tax year. He could either be required to break down the total by reference to business and private use, or he could merely return the total, leaving it to the employee to claim for business use. The first approach would be more burdensome for employers, the second more burdensome for the Revenue and for employees; but they would both require records to be kept more extensively than is now the general practice.

The 'formula' method

6. The precise formula would be for negotiation with the Inspector, although there would be a general pattern into which the different formulae would fit. The employee would retain the right to claim expenses under the general Schedule E rules where

he considered that in his case this would produce a more favourable result. The formula might be based on actual expenditure in a sample period; or AA or other figures for petrol costs per mile for the type of car involved or an agreed proportion of the total mileage; or any other basis which gave a just and reasonable measure of the benefit for the groups of employees or individuals concerned.

#### The 'scale' method

7. This would be similar in principle to the scale used for car benefits. It would not depend directly on the amount of petrol provided. The scale could be graduated like the car scale, by reference to engine size and price of car, and might be set as a percentage of the car scale; or it could be at a flat rate unrelated to the type of car. The scale charge could simply be reduced to nil where the employee fully reimbursed his employer for the cost of petrol used privately. Alternatively, the charge might be reduced where the private mileage was very low. It could also be reduced if the employee made some payment to his employer specifically for the fuel provided for his private motoring. These modifications would require more elaborate record keeping than a simple scale but they would probably be administratively more convenient than the 'actual' method. A graduated petrol scale related to the car scale could present problems in its application to those provided with free petrol for use otherwise than in a company car.

#### Application of PAYE

8. Under the 'actual' method the tax on the benefit would ordinarily be recoverable through adjustments to the PAYE coding. Under the 'scale' method and under the 'formula' method the benefit could be treated as pay for PAYE purposes, so that the employer would apply PAYE to it directly month by month.

#### Conclusion

9. Views are invited on the methods examined in this document, and any other suggestions would be welcomed. Any representation should be made in writing to the Inland Revenue, Room 46, New Wing, Somerset House, if possible by 15 May 1981.

Board of Inland Revenue  
March 1981