



Prime Minister
You already know
the main points in this.

Treasury Chambers, Parliament Street, SW1P 3AG
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(pa)

17 March 1986

The Rt. Hon. Paul Channon MP
Secretary of State for Trade and Industry

Paul Channon

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mistake.

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**TAXATION OF FRINGE BENEFITS -
COMPANY CARS AND FREE FUEL FOR PRIVATE MOTORING: 1987/88**

As in recent years I am writing to you and colleagues concerned with details of the changes I propose to the scales for taxing these benefits, and which I shall be announcing in my Budget. These scales are set a year in advance, so the changes this time relate to 1987/88. The changes this year are also a little more complex than usual.

In response to representations from the SMMT and others, supported by Leon Brittan and by Nick Ridley, my main proposal is to change the present 1300cc and 1800cc engine-size breakpoints in both the car and car fuel benefits scales to 1400cc and 2000cc respectively, to align with those in the proposed EC Directive on motor exhaust emissions. This change will apply from April 1987.

Changing the engine-size breakpoints will place a significant number of company car users in a lower charge band than previously, and would therefore result in a loss of revenue. To prevent this, the scale charges themselves will also be adjusted so as to achieve broad revenue neutrality. In addition, I propose to increase the restructured car benefit scale charges by 10 per cent in 1987/88 in continuation of our policy gradually to increase these charges towards a realistic measure of the benefit.

There will, however, be no general increase in the car fuel scale for 1987/88. This will be kept at broadly the 1986/87 level, but with restructuring. From 1987/88, therefore, the car fuel scale will no longer be the same as the car benefit scale, recognising that the car fuel scale already comes close to a realistic measure of benefit.

I also propose that, from April 1987, the income tax car fuel scale should be used to assess VAT due on petrol provided out of business resources for private motoring by registered traders and their employees. This will simplify the present arrangements for



restricting the amount of input tax that can be offset against VAT where petrol is provided for private motoring.

Finally, I also propose to increase by 10 per cent the scale charges for more expensive cars, and cars without a cubic capacity, but I do not propose to increase the cash breakpoints for these scales.

The main scales for 1987/88 resulting from these proposed changes are summarised below (1986/87 figures in brackets):

	<u>Car Benefits</u>	<u>Car Fuel Benefits</u>
1400cc(1300cc) or less	525 (450)	480 (450)
1401cc(1301cc) - 2000cc(1800cc)	700 (575)	600 (575)
Over 2000cc (1800cc)	1,100(900)	900 (900)
£19,250 - £29,000	1,450 (1,320)	Scale for relevant
Over £29,000	2,300 (2,100)	engine size applies

These proposals will be the subject of Treasury Orders during April.

I am copying this letter to the Prime Minister, and to Peter Walker and Nicholas Ridley.

NIGEL LAWSON

A handwritten signature in dark ink, appearing to read 'Nigel Lawson', with a horizontal line underneath.