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To: "Noel Moran (Britvic IE)"

Subject: FIN-MO-05251-2022

Reply-To: Ministers Office <minister@finance.gov.ie>

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Our Ref: FIN-MO-05251-2022

Mr Noel Moran

[Noel.Moran4@britvic.com]

Dear Mr Moran

The Minister for Finance, Mr Paschal Donohoe TD, has asked me to reply to your email of 28 October, regarding vehicle benefit in kind (BIK) and in particular the commencement of the new BIK regime from 1 January 2023.

The reason for this new BIK regime is the urgent need for the Government to tackle climate change. An emissions based approach has already been adopted for VRT and motor tax and this approach is now being extended to BIK. A CO₂-based vehicle BIK regime was actually legislated for back in 2008, but not implemented.

A CO₂-based BIK for company cars was put into law three years ago, in the Finance Act 2019, with a commencement date from 1 January 2023. The lead-time between the BIK change being put into law and actually being applied was to send an advance signal to industry. Typical lease renewal periods are approximately three years, and so the Minister wanted to provide sufficient time to adapt to this new system before its implementation in 2023.

In summary, the new BIK regime provides that from 1 January 2023 the amount taxable as BIK remains determined by the car's original market value (OMV) and the annual business kilometres driven. New CO₂ emissions-based bands will determine whether a standard, discounted, or surcharged rate is taxable. The number of mileage bands is also being reduced from five to four.

Electric vehicles (EVs) will benefit from a preferential rate of BIK, ranging from 9 – 22.5% depending on mileage while fossil-fuel vehicles will be subject to higher BIK rates, up to 37.5%. This new structure with CO₂-based discounts and surcharges is designed to incentivise employers to provide employees with low-emission cars.

The Minister is aware of some questions around the mileage bands in the new BIK structure. The rationale behind the mileage bands is that the greater the business mileage, the more the car is a benefit to the company rather than its employee (on average); and the more the car depreciates in value, the less of a benefit it is to the employee (in years 2 and 3). Mileage bands also ensure that cars more integral to the conduct of business receive preferential tax treatment.

It is acknowledged that due to these changes, employees may see a change in the level of BIK paid, particularly those who have higher emission cars. However, those driving less than 32,000 kilometres per year in a category B car will have a reduced level of BIK, whilst those driving a category C car for the same amount of kilometres will see no change in the amount of BIK paid compared with the current regime.

The Minister believes that better value for money for the taxpayer is achieved by curtailing the amount of subsidies available. At the same time, building an environmental rationale directly into the BIK regime supports environmental targets and health outcomes. It was determined in this context that reforming the BIK system to include emissions bands provides for a more sustainable environmental rationale than the continuation of the current system with exemptions for EVs. This will bring the taxation system around company cars into step with other CO₂-based motor taxes as well as the long-established CO₂-based vehicle BIK regimes in other member states.

In addition to the above, and in light of government commitments on climate change, Budget 2022 extended the preferential BIK treatment for EVs to end 2025 with a tapering mechanism on the vehicle value threshold. This BIK exemption forms part of a broader series of very generous measures to support the uptake of EVs, including a reduced rate of 7% VRT, a VRT relief of up to €5,000, low motor tax of €120 per annum, SEAI grants, discounted tolls fees, and 0% BIK on electric charging.

I hope this information explains the rationale for the upcoming changes.

Yours sincerely

Alex Costello

Private Secretary to the Minister for Finance