



## **FUNDING THE FUTURE: TAX**

With inflation on the rise, low rates of business investment compared to peer countries, and the risk of a recession looming, it is more important than ever to take the right steps to support economic growth.

One key aspect of driving this growth is by encouraging businesses to invest in new plant and machinery, and that's where the members of the Finance and Leasing Association (FLA) come in. Our members play a vital role in helping businesses get the equipment they need, overcoming the hurdle of high upfront costs by providing financing options for the acquisition of new plant and machinery. This is especially important when it comes to green assets, which often cost more than their non-green equivalents.

The tax system however can still hold back business investment. Recent changes have provided a welcome boost to business, including the introduction of full expensing. But more needs to be done to truly unlock the potential of SMEs to grow the economy and support the transition to net zero.

This paper sets out proposed changes that not only promote the transition to a net-zero economy but also boost business investment and provide businesses with simplicity and certainty. These include:

- **Radically simplifying capital allowances**
- **Changing VAT rules to support net zero**
- **Fairer support for individuals using salary sacrifice to acquire zero-emissions vehicles**



## **Radically simplifying capital allowances**

The introduction of full expensing was a welcome change to the UK investment landscape. However, underpinning full expensing is an intricate system of targeted capital allowances with complex eligibility rules and exemptions. We suggest the Government reviews these allowances with a view to rationalising them.

Currently many capital allowances cannot be claimed by finance and leasing companies which purchase vehicles and lease them to businesses and consumers. If lenders, including leasing companies, could offset purchases of electric vehicles (EVs) against their tax position this would enable them to offer much more competitively priced finance/rental payments for these vehicles. Research undertaken by the British Vehicle Rental and Leasing Association (BVRLA) suggests passing on the benefit of capital allowances could lead to customer savings of £20-£30 a month. Work is ongoing with HM Treasury to allow lessors to claim full expensing.

However, there remain several targeted First Year Allowances outside the scope of full expensing. We urge the government to initiate a review of these with a view to reducing their number and broadening their scope. This would resolve the issue of multiple allowances with complex eligibility rules, which limit their appeal, especially for smaller businesses.

## **Changing VAT rules to support net zero**

Modest changes to the VAT system can provide opportunities to support business growth.

For example, reducing the VAT rate for public electricity charging to match domestic charging at 5% would further encourage the switch to EVs.

Reducing the VAT applied to zero emissions vehicles and reducing the VAT rate applied to vehicles or equipment which is leased or hired (e.g., via Personal Contract Hire) would also support the transition to net zero.

These proposed changes aim to create a more favourable environment for businesses, allowing them to actively contribute to achieving net-zero targets while also driving economic growth.

## **Fairer support for individuals using salary sacrifice to acquire zero-emissions vehicles**

Currently many consumers are able to use salary sacrifice schemes to acquire Battery Electric Vehicles (BEVs). This has helped bring ownership of BEVs within the reach of many who might otherwise have simply purchased a petrol or diesel car, making a huge difference to the UK's carbon emissions and improving air quality.

However, the salary sacrifice scheme disproportionately favours higher rate taxpayers acquiring luxury vehicles. We suggest a twin track approach of limiting salary sacrifice on BEVs to 20% whilst at the same time expanding its scope to used BEVs.



This would achieve three key aims. It would widen access to BEVs for lower rate tax payers, making them a viable option for many and widening participation in the transition to BEVs. It would help to foster a healthy used marketplace for BEVs. It would also ensure that Government funds are spent ensuring as many consumers as possible are driving BEVs rather than restricting support to those more likely to afford new BEVs.

#### **About the FLA**

The Finance & Leasing Association (FLA) is the leading trade body for the UK business finance (leasing and hire purchase), consumer credit and motor finance sectors. In 2022, members of the Finance & Leasing Association (FLA) provided £150 billion of new finance to UK businesses and households, £51 billion of which helped consumers and businesses buy new and used cars, including 84% of private new car registrations. £116 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. £34 billion of finance was provided to businesses and the public sector to support investment in new equipment, representing almost a third of UK investment in machinery, equipment and purchased software in the UK last year.