



DRAFT FINANCE BILL 2025/26 LEGISLATION: EMPLOYEE CAR OWNERSHIP SCHEMES

Issued 15 September 2025

ICAEW welcomes the opportunity to comment on the Draft Finance Bill 2025/26 Legislation: regarding the changes to Employee Car Ownership Schemes (ECOS) published by HMRC on 21 July 2025, a copy of which is available from this [link](#).

ICAEW has concerns that the ECOS legislation will bring genuine, commercial arrangements of household members into charge as a benefit in kind for employees of car manufacturers and calls for consideration of transitional provisions.

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This response of 15 September 2025 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, ICAEW's Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark the tax system and changes to it, are summarised in Appendix 1.

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BACKGROUND

At the Autumn Budget on 30 October 2024, the government announced that it planned to legislate to bring Employee Car Ownership Scheme (ECOS) arrangements into the scope of the benefit in kind rules for company cars. The structure of these schemes allows for the ownership of the vehicle to be transferred to the employee with payments being made through a credit sale arrangement, sometimes via a third party or collected via payroll. Typically, the employer will buy back the car at a later date and the proceeds will be used to settle the outstanding loan.

Due to the employee owning the car rather than the employer, the vehicle is not considered to be a company car and is not treated as such for benefit in kind purposes. The benefit in kind is a beneficial loan. This means that the value of the benefit is based on the loan balance rather than the list price and Co2 emissions value, lowering the tax payable for the employee and class 1A national insurance due from the employer. In addition, the employee is able to claim mileage expenses for using their own car rather than at the lower rates which are in force for use of company cars.

These schemes are predominantly used by car manufacturers who can provide new vehicles for less than their fair market value to incentivise employees, but also to allow them to familiarise themselves with the cars for retail and market research purposes while also promoting the brand. The same will also apply to any vans provided via similar schemes, though this is less prevalent.

The new rules are due to apply from 6 October 2026.

GENERAL COMMENTS

ICAEW welcomes the opportunity to comment on the draft legislation which in the government's view strives to promote fairness and consistency for all taxpayers who benefit from private use of a company car or van and to encourage the use of zero emissions vehicles, by reinforcing the emission-based tax benefit scheme.

We do, however, have some concerns that the current draft of the legislation may have some unintended consequences. Some of these concerns have been previously communicated to HMRC and are reiterated in this representation.

SPECIFIC COMMENTS ON THE LEGISLATION

1. Section 114(1)(a) & (b), ITEPA 2003

The removal of the wording "without any transfer of the property in it" and insertion of "in circumstances falling within section 116A (car or van made available with transfer of ownership)" will bring ECOS arrangements into the scope of the company car benefit in kind rules.

Section 114(1)(b), ITEPA, stipulates that the vehicle "is so made available by reason of the employment" (and that includes use by a member of an employee's family or household). There is an argument that the provision of a vehicle to a household member under a PCP is not "by reason of employment". However, s117, ITEPA, further clarifies the meaning of "made available by reason of employment" under this legislation as follows:

- (1) For the purposes of this Chapter a car or van made available by an employer to an employee or member of an employee's family or household is to be regarded as made available by reason of the employment unless subsection (2) or (3) excludes the application of this subsection.
- (2) Subsection (1) does not apply where—
 - (a) the employer is an individual, and
 - (b) the car or van in question is made available in the normal course of the employer's domestic, family or personal relationships.
- (3) Subsection (1) does not apply where -

- (a) the employer carries on a vehicle hire business under which cars or vans of the same kind are made available to members of the public for hire,
- (b) the car or van in question is hired to the employee or member in the normal course of that business, and
- (c) in hiring that car or van the employee or member is acting as an ordinary member of the public.

2. A typical Personal Contract Purchase (PCP) arrangement, which is a type of car finance paid for in monthly instalments, deferring a large portion to an optional final payment would not meet the hiring exclusion and would appear to be caught by these draft provisions. However, we are of the opinion that there should be no chargeable benefit if an employee derives no benefit from the arrangement used by a member of their family or household on the open market. We request that either the above exemption is extended, or a commercial terms exemption is added to the legislation similar to the existing exemption for beneficial loans (s176, ITEPA 2003) so as to protect an employee from a charge where there is a genuine arm's length transaction between the employer or an entity connected with the employer and the employee, the employee's family or household.

3. **Section 116A, ITEPA 2003**

This section will impose a benefit in kind charge when there is a transfer of the property (car or van) to the employee or member of the employee's family or household if the conditions for a "qualifying arrangement" are met. A "qualifying arrangement" is defined in the draft s116A(2), ITEPA 2003 as one where any of the following applies in relation to them:

- (a) they include restrictions on the private use of the car or van by the employee or member;
- (b) they provide for a person other than the employee or member to be the registered keeper of the car or van;
- (c) they provide for the employee or member, after a certain period of time or in certain circumstances, to transfer the property in the car or van to another person for an amount set out or determined in accordance with the arrangements;
- (d) they are of a description specified in regulations made by the Treasury".

4. In our view, this also means that where an employee or member of an employee's household is using a PCP scheme and there is a genuine, commercially available arrangement in place, this would still give rise to a taxable benefit in kind chargeable to the employee.
5. We are of this opinion that because most, if not all, such schemes have restrictions on the amount of mileage that the employee can incur before being charged a penalty. This would appear to be a restriction that meets condition (a) above. As per paragraph 2 above, we would request that an exemption is considered to ensure the employee is not subject to a benefit in kind charge in such cases.

6. **Section 116(1), ITEPA 2003**

There is, however, an argument that under a PCP there is no transfer of the property until the end of the agreement and therefore a PCP would not typically fall within s116(1). Unfortunately, there is no specified time for when the "transfer of property" has to occur. The transfer at the end of the agreement would in our view be "pursuant to qualifying arrangements".

7. **Section 116A(2)(c), ITEPA 2003**

We would also like to highlight s116A(2)(c) which states that: "they provide for the employee or member, after a certain period of time or in certain circumstances, to transfer the property in

the car or van to another person for an amount set out or determined in accordance with the arrangements”. If there is an option to buy the vehicle at fair market value, it would appear to meet the restriction “determined in accordance with the arrangements”. We do not believe that an option to buy the car at fair market value should be included in restriction (c).

8. **Section 116A (3), ITEPA 2003**

Furthermore, the draft legislation refers to ss132A, 143 and 156, ITEPA, making it clear that a taxable car or van benefit which arises under this legislation can still be adjusted for employee contributions, periods of unavailability and shared use. However, there is no equivalent reference to ss151(1), 152 or 153 to reduce the fuel benefit due to periods of unavailability, withdrawal of the benefit during the year, or shared use. Due to this omission, we are concerned that a fuel benefit charge will rise for the full tax year even if fuel is only provided in the period up until 6 October 2026. To address this, we suggest equivalent references to the sections mentioned above are added so that the fuel benefit can also be apportioned.

9. **Clause 1(5) & (6)**

ICAEW would also like to raise some concerns about the mid tax year implementation date. Practically, the mid tax year change (6 October 2026) is likely to cause complications for some employers with regard to P11D reporting or payrolling of benefits. Perhaps more significantly, employers will also be required to quantify cost differentials, review and update policies and revise remuneration structures to account for the removal of the ECOS arrangement, as well as communicate effectively with employees. We understand that the ministerial view is that there has been sufficient notice of the change as it was announced in Autumn Budget 2024, but employers and advisers will have had to wait for the draft legislation before being able to consider the changes that would be needed to their remuneration packages.

TRANSITIONAL MEASURES

10. In view of the above, we would also like to suggest that transitional provisions, in line with those being introduced for double cab pick-ups and those that were in place for the introduction of Optional Remuneration Arrangements legislation in 2017, are also considered. This would aid the smooth implementation of the new rules and withdrawal of these schemes, as well as allowing employers sufficient time to revise policies or remuneration structures. In addition, we are concerned about the possibility of an employee being locked into an ECOS arrangement when the new legislation comes in and therefore being subject to both a benefit in kind charge and a beneficial loan charge. It would seem sensible for transitional measures to extend the ECOS arrangement until the end of the current agreement or until April 2027 in line with the mandation of payrolling of benefits in kind.
11. Manufacturers and other representatives of the UK automotive industry continue to express concern that the new rules could have a detrimental effect on the industry, as it may weaken demand for new and lower emission cars and disrupt the used car market. Impacted employees of manufacturers may consequently choose older and less environmentally friendly options. ICAEW also has concerns that, in the absence of a thorough cost benefit analysis, this measure will not raise the additional revenue expected by the treasury due to the unintended consequences on the new and second-hand market.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see [TAXGUIDE](#)).