FINANCE BILL

EXPLANATORY NOTES

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Explanatory notes

Introduction

1. These explanatory notes relate to the Finance Bill as introduced into Parliament on 22 November 2022. They have been prepared jointly by HM Revenue and Customs and HM Treasury in order to assist the reader in understanding the Bill. They do not form part of the Bill and have not been endorsed by Parliament.

2. The notes need to be read in conjunction with the Bill. They are not, and are not meant to be, a comprehensive description of the Bill. So, where a section or part of a section does not seem to require any explanation or comment, none is given.

Part 1: Energy (oil and gas) profits levy

Clause 1: Increase in rate of tax

Summary

1. This clause amends the Energy (Oil and Gas) Profits Levy Act 2022 (EPLA 2022) to increase the rate of the levy from 25% to 35%.

Details of the clause

2. Subsection (1) amends section 1 EPLA 2022 to increase the rate of the levy from 25% to 35%.
3. Subsection (2) provides that the increase in the rate of the levy as set out in subsection (1) has effect for accounting periods beginning on or after 1 January 2023.
4. Subsection (3) provides a rule for accounting periods that straddle 1 January 2023 (referred to as a "straddling period"), treating them as separate accounting periods. This rule means that the levy profits or loss of the deemed accounting period as starting on that date will be subject to the levy provisions and apportioned according to the rules in section 17 EPLA 2022. Provision is made for section 17 EPLA 2022 to apply for the purposes of this subsection as it applies for the purposes of sections 15 and 16 EPLA 2022. Reference is also made to subsection (9) for how a straddling period beginning before 26 May 2022 is dealt with.
5. Subsection (4) applies the Instalment Payments Regulations 1998 in the case of a straddling period to the levy separately from other taxes.
6. Subsection (5) applies for the purposes of subsection (4), and provides that, for the purposes of the levy, the Instalment Payments Regulations 1998 apply in respect of the deemed accounting period beginning on 1 January 2023 as if it were an accounting period for the purposes of instalment payments.
7. Subsection (6) makes a minor consequential modification to the reading of the Instalment Payments Regulations 1998 for the purpose of giving effect to the requirement in subsection (4) that those Regulations are to apply differently for the purposes of the levy. Specifically, subsection (6) provides that, for the purposes of the levy, any reference in the Instalment Payments Regulations 1998 to the total liability of a company is to be taken as a reference to the levy. However, in relation to any other tax chargeable on a company, those references to the total tax chargeable on a company are to be read as references to the amount that would be the company's total liability for the straddling period if the levy were left out of account.
8. Subsection (7) provides that, for the purposes of the application of the Instalment Payments Regulations 1998, a company is to be regarded as a large company for the deemed accounting periods created under subsection (3)(a) only if it is a large company for the straddling period. A large company for the purposes of the straddling period is determined as it would have been determined apart from section 1 EPLA 2022.

9. Subsection (8) defines "the Instalment Payments Regulations 1998" for the purposes of section 1.

10. Subsection (9) applies this section to a straddling period beginning before 26 May 2022 in addition to the provision made by section 15 EPLA 2022. This means that an accounting period treated under section 15(1)(a) EPLA 2022 as beginning on 26 May 2022 will be further split into two separate accounting periods under this section. This is in order to give effect to the additional straddling period occurring as a result of the increase in the levy rate from 1 January 2023. It also provides that the transitional rules, and rules for apportioning profits or loss to separate accounting periods, as set out in sections 15 and 17 EPLA 2022 apply to the company's three separate accounting periods.

Background note

11. The government announced the Energy (Oil and Gas) Profits Levy in May 2022, to respond to exceptionally high commodity prices that meant oil and gas companies were benefiting from extraordinary profits.

12. The government is raising the rate of the levy from 25% to 35%, bringing the headline tax rate for the sector to 75%, and extending the duration of the levy until 31 March 2028.

13. The reduction in the rate of the investment allowance to 29% will maintain the overall cumulative value of relief for investment expenditure following the rate increase, reflecting that these reliefs will increase in value against a higher levy rate.

14. If you have any questions about this change, or comments on the legislation, please contact Nicola Garrod on 07469 023033 (email: nicola.garrod@hmrc.gov.uk).

Clause 2: Reducing the amount of the additional investment expenditure

Summary

1. This clause amends section 2 of the Energy (Oil and Gas) Profits Levy Act 2022 (EPLA 2022) to reduce the rate at which additional investment expenditure is treated as incurred from 80% to 29% (additional investment expenditure being allowable as a deduction in calculating the amount of the profits or loss of any ring fence trade).

Details of the clause

2. Subsection (1) amends subsection (3) of section 2 EPLA 2022 to decrease the amount of the additional expenditure treated as incurred from 80% to 29%.

3. Subsection (2) provides that the decrease in rate set out in subsection (1) has effect in relation to expenditure incurred on or after 1 January 2023, and that the time the expenditure is incurred is determined for the purposes of this section according to section 7 EPLA 2022.

Background note

4. The government announced the Energy (Oil and Gas) Profits Levy in May 2022, to respond to exceptionally high commodity prices that meant oil and gas companies were benefiting from extraordinary profits.

5. The government is raising the rate of the levy from 25% to 35%, bringing the headline tax rate for the sector to 75%, and extending the duration of the levy until 31 March 2028.

6. The reduction in the rate of the investment allowance to 29% will maintain the overall cumulative value of relief for investment expenditure following the rate increase, reflecting that these reliefs will increase in value against a higher levy rate.

7. If you have any questions about this change, or comments on the legislation, please contact Nicola Garrod on 07469 023033 (email: nicola.garrod@hmrc.gov.uk).

Clause 3: Extending the period for which tax has effect

Summary

1. This clause amends section 1 of the Energy (Oil and Gas) Profits Levy Act 2022 (EPLA 2022) to extend the period for which the levy has effect to 31 March 2028 and makes consequential amendments to EPLA 2022 as a result of that extension.

Details of the clause

2. Subsection (1) amends the definition of a "qualifying accounting period" in section 1(3) EPLA 2022 (used as a reference when charging the levy) by changing the date on or before which a qualifying accounting period can end from 31 December 2025 to 31 March 2028.

3. Subsection (2) makes consequential amendments to sections 7 and 16 EPLA 2022 to substitute 31 December 2025 with 31 March 2028.

Background note

4. The government announced the Energy (Oil and Gas) Profits Levy in May 2022, to respond to exceptionally high commodity prices that meant oil and gas companies were benefiting from extraordinary profits.

5. The government is raising the rate of the levy from 25% to 35%, bringing the headline tax rate for the sector to 75%, and extending the duration of the levy until 31 March 2028.

6. The reduction in the rate of the investment allowance to 29% will maintain the overall cumulative value of relief for investment expenditure following the rate increase, reflecting that these reliefs will increase in value against a higher levy rate.

7. If you have any questions about this change, or comments on the legislation, please contact Nicola Garrod on 07469 023033 (email: nicola.garrod@hmrc.gov.uk).

Part 2: Corporation tax

Clause 4: Amount of relief for expenditure on research and development

Summary

1. This clause amends Part 13 of the Corporation Tax Act (CTA) 2009 to reduce the additional deduction for research and development (R&D) costs incurred by a company which is a small or medium sized enterprise (SME) and to reduce the rate of payable credit for the surrender of losses by such a company. This clause also amends Part 3 of CTA 2009 to increase the rate of the R&D Expenditure Credit (RDEC) (which is mainly claimed by large companies).

Details of the clause

2. Subsection (2) amends s104M CTA 2009 to increase the RDEC rate from 13% to 20%.

3. Subsection (3)(a) amends s1044 CTA 2009 to reduce the additional deduction for SME companies in calculating profits from its current rate of 130% to 86%. This, combined with the normal deduction for such expenditure, gives a reduced total deduction of 186%.

4. Subsection (3)(b) amends s1045 CTA 2009 to ensure that where a company has qualifying R&D expenditure which is not deductible because the company has not commenced trading, the same total amount (186% of the qualifying expenditure) is available.

5. Subsection (3)(c) amends s1055 CTA 2009, which defines the amount of loss that can be surrendered for SME payable credit, so that the maximum amount is reduced from 230% of the qualifying R&D expenditure to 186%.

6. Subsection (3)(d) amends s1058 to reduce the rate at which a SME company may claim a payable tax credit in respect of a surrenderable loss from its current rate of 14.5% to a rate of 10%. The maximum payable credit on £100 of qualifying expenditure will in future therefore be £18.60, compared with £33.35 currently.

7. All the changes apply to expenditure incurred on or after 1 April 2023.

Background note

8. The R&D relief for SME companies currently provides an additional deduction from profits at a rate of 130% of qualifying R&D expenditure. This, combined with the normal deduction for such expenditure, gives a total deduction of 230%. The rate of the additional deduction is to be reduced from 130% to 86% and the rate at which qualifying losses can be surrendered, from 14.5% to 10%.

9. The RDEC was introduced for companies undertaking qualifying activity and incurring qualifying expenditure on 1 April 2013 as a replacement for the R&D tax relief for large businesses. The RDEC is a standalone credit to be brought into account as a taxable receipt in calculating profits. The current general rate is set as 13% of qualifying R&D expenditure.

10. For profit making companies, the RDEC discharges corporation tax liability that the company would have to pay. Companies with no corporation tax liability will benefit from the RDEC either through a cash payment or a reduction of tax or other duties due.

11. In some specific situations where small and medium sized enterprises are prevented from making claims within the SME scheme, they are entitled to make claims instead for RDEC.

12. The clause increases the rate of RDEC from 13% to 20%. The level of the SME relief has historically been more generous than the RDEC, and these changes bring the levels closer together.

13. If you have any questions about this change, please contact David Harris on 03000 586834 (email: david.harris@hmrc.gsi.gov.uk) or Yasmin Achha on 03000 592504 (email: yasmin.achha@hmrc.gov.uk).

Part 3: Income tax

Clause 5: Basic rate limit and personal allowance for tax years 2026-27 and 2027-28

Summary

1. This clause sets the amount of the basic rate limit for income tax at £37,700 and sets the amount of the personal allowance at £12,570 for the 2026-27 and 2027-28 tax years.

Details of the clause

2. Subsection (1) introduces amendments to section 5 of Finance Act 2021.
3. Subsection (2) provides that the basic rate limit will remain at £37,700 for the tax years 2026-27 and 2027-28.
4. Subsection (3) provides that the personal allowance will remain at £12,570 for the tax years 2026-27 and 2027-28.
5. Subsection (4) provides that the basic rate limit and the personal allowance will not be uprated for the tax years affected.

Background note

6. An individual's taxable income is charged to tax at the basic rate of tax up to the basic rate limit.
7. The basic rate limit is subject to indexation (an annual increase based on the percentage increase in the consumer prices index (CPI)). Parliament can override the indexed amounts by a provision in the Finance Bill.
8. At Autumn Statement 2022, it was announced that the basic rate limit would be set at £37,700 for the tax years 2026-27 and 2027-28. The effect of this clause is to override the anticipated indexed amount for the basic rate limit for these years.
9. An individual is entitled to a personal allowance for income tax. The income tax personal allowance is subject to indexation (an annual increase based on the percentage increase in the CPI). Parliament can override the indexed amounts by a provision in the Finance Bill.
10. The personal allowance will be set at £12,570 for the tax years 2026-27 and 2027-28. The effect of this clause is to override the anticipated indexed amount for the personal allowance for these years.
11. Changes to the personal allowance will apply to the whole of the UK.
12. Changes to the basic rate limit will apply to non-savings and non-dividend income in

England, Wales and Northern Ireland and to savings and dividend income in the UK.

13. If you have any questions about this change, please email: incometaxstructuremailbox@hmrc.gov.uk.

Clause 6: Threshold at which additional rate is charged

Summary

1. This clause amends Section 10 of the Income Tax Act 2007, to lower the income tax higher rate limit (above which income tax is charged at 45%) from £150,000 to £125,140, the point after which individuals do not receive any Personal Allowance.

Details of the clause

2. Subsection (1) provides for an amendment to section 10 of the Income Tax Act 2007, substituting subsection (5A), to lower the income tax higher rate limit from £150,000 to the sum of £100,000 (the point after which the Personal Allowance starts to be withdrawn) plus twice the Personal Allowance, currently set at £12,570. Subsection (5B) provides for the Treasury to make an Order before the start of each tax year to confirm the higher rate limit.
3. Subsection (2) disapplies the parliamentary procedure set out in of section 1014(4) of the Income Tax Act 2007 in relation to an Order made under subsection (5B).
4. Subsection (3) sets out that subsection (5A) will apply from the 2023 to 2024 tax year onwards.
5. Subsection (4) sets the higher rate limit at £125,140 from the 2023 to 2024 tax year until the 2027 to 2028 tax year.
6. Subsection (5) sets out that the Treasury Order under subsection (5B) required to confirm the higher rate limit will only be required for the tax year 2028 to 2029 onwards.

Background note

7. The income tax higher rate limit, above which income tax is charged at 45%, is lowered to £125,140 from the 2023 to 2024 tax year.
8. Changes to the income tax higher rate limit will apply to the income tax rates, which apply to non-savings, non-dividend income, for taxpayers in England, Wales and Northern Ireland and will also apply to the savings rates, dividend rates and the default rates which apply for taxpayers across the UK.
9. Since April 2017, the Scottish Parliament has set the rates and thresholds for non-savings, non-dividend income of Scottish taxpayers.
10. If you have any questions about this change, please email: incometaxstructuremailbox@hmrc.gov.uk.

Clause 7: Dividend nil rate

Summary

1. This measure amends the provisions relating to the dividend nil rate. The amount of an individual's dividend income that is charged to income tax at the dividend nil rate will reduce from £2,000 to £1,000 for the tax year 2023 to 2024. It will then reduce from £1,000 to £500 for the tax year 2024 to 2025 and subsequent tax years.

Details of the clause

2. Subsection (1) amends section 13A(2) of the Income Tax Act 2007 so that the amount of an individual's income that is charged to income tax at the dividend nil rate is reduced from "£2,000" to "£1,000".

3. Subsection (2) applies the amendments made in subsection (1) with effect for the tax year 2023 to 2024.

4. Subsection (3) amends section 13A(2) of the Income Tax Act 2007, as amended by subsection (1), so that the amount of an individual's income that is charged to income tax at the dividend nil rate is reduced from "£1,000" to "£500".

5. Subsection (4) applies the amendments made in subsection (3) with effect for the tax year 2024 to 2025 and subsequent tax years.

Background note

6. At Summer Budget 2015, the government announced that dividend taxation would be reformed from April 2016. This included the introduction of a £5,000 nil rate band (the amount of an individual's dividend income that is subject to income tax at the nil rate, also known as the 'dividend allowance'). The government then announced in Spring Budget 2017 that the dividend allowance would reduce to £2,000 from April 2018. The dividend allowance is available to all individuals who receive dividend income.

7. This measure reduces the dividend allowance from £2,000 to £1,000 for the tax year 2023 to 2024 and then to £500 for the tax year 2024 to 2025 and subsequent tax years.

8. If you have any questions about this change, please contact Tanzana Uddin by email: tanzana.uddin@hmrc.gov.uk.

Clause 8: Annual exempt amount

Summary

1. This measure changes the Capital Gains Tax (CGT) annual exempt amount. For the tax year 2023-24 the annual exempt amount will be £6,000 for individuals, personal representatives and £3,000 for most trustees of settlements (trusts). For tax years on and after 2024-25 it will be £3,000 for individuals and personal representatives and £1,500 for trusts. It also removes the annual uprating of the annual exempt amount to reflect changes in the consumer prices index (CPI) and fixes the CGT proceeds reporting limit at £50,000.

Details of the clause

2. Subsection (1) makes various changes to the Taxation of Chargeable Gains Act 1992 (TCGA).
3. Subsections (2) to (5) amend subsection 1K(2) TCGA. The effect of those changes is that for the tax year 2023-24 the annual exempt amount will be £6,000 for individuals and personal representatives and £3,000 for most trusts; and for 2024-25, and tax years going forward, the annual exempt amount will be £3,000 for individuals and personal representatives and £1,500 for most trusts.
4. Subsection (6) repeals section 1L. Section 1L requires that the annual exempt amount be increased in line with increases in the CPI.
5. Subsection (7) amends section 8C(1)(b) Taxes Management Act 1970. At present persons who are within self-assessment are required to complete the CGT pages where the total amount or value of the consideration for all 'chargeable disposals' of assets made by them in a tax year exceeds "four times" the annual exempt amount. That "four times" limit is replaced with a fixed amount of £50,000.
6. Subsection (8) makes some consequential changes.
7. Subsection (8)(a) amends s287(4) TCGA.
8. Subsection (8)(b) amends section 40 of the Finance Act 2021, which fixed the AEA at £12,300 up to and including 2025-26.
9. Subsection (9) provides that these amendments have effect for tax year 2023-24 and subsequent tax years.

Background note

10. Individuals do not have to pay CGT unless their chargeable gains (net of allowable losses and reliefs due) for a tax year exceed the "annual exempt amount" for the year. The annual exempt amount is not available to non-domiciled individuals who claim the remittance basis of taxation for the tax year. Personal representatives of deceased persons are entitled to the annual exempt amount for the tax year in which the individual dies and the following two

tax years. Most trustees are currently entitled to a fraction of the annual exempt amount for an individual. In most cases the fraction is one-half, but a smaller fraction applies in some cases. Trusts for the benefit of certain vulnerable individuals are entitled to the full amount due to an individual.

11. The annual exempt amount is automatically increased by reference to inflation, as measured by the percentage increase in the CPI for the 12 months to September in the preceding tax year. By abolishing the annual uprating, from 6 April 2024 the annual exempt amount will remain permanently fixed at £3,000 for individuals and personal representatives and £1,500 for most trusts.

12. The CGT reporting limit, amongst other things, requires persons who are within self-assessment to complete the CGT pages where the total amount or value of the consideration for all 'chargeable disposals' of assets made by the person in the year does not exceed four times the annual exempt amount. At present this is £49,200. This amount is now fixed at £50,000.

13. If you have any questions about this change, please contact the Capital Gains Tax policy team by email at: cgtbudget@hmrc.gov.uk.

Part 4: Inheritance tax

Clause 9: Rate bands etc for tax years 2026-27 and 2027-28

Summary

1. This measure fixes the inheritance tax (IHT) thresholds at their current levels for a further two tax years, 2026 to 2027 and 2027 to 2028. This measure will fix the:

   - nil-rate band (NRB) at £325,000;
   - residential enhancement (commonly referred to as the Residence Nil-Rate Band (RNRB) at £175,000; and
   - RNRB taper threshold at £2,000,000.

Details of the clause

2. This measure amends section 86 of the Finance Act 2021, which currently disapplies section 8 and section 8D(7) of the Inheritance Tax Act 1984 (IHTA 1984) for tax years 2021 to 2022 up to and including 2025 to 2026. The amendment disapplies those provisions for a further two tax years: 2026 to 2027 and 2027 to 2028.
3. Section 8 and section 8D(7) apply if the consumer prices index (CPI) for September in any tax year is higher than it was for the previous September; and provide for an increase in the NRB, RNRB and RNRB taper thresholds for the following tax year by the same percentage as the increase in CPI (rounded up to the nearest £1,000).
4. The effect of this measure is that the NRB, RNRB and the taper RNRB threshold will not increase in line with CPI for the tax years 2026 to 2027 and 2027 to 2028.

Background note

5. The rates of IHT are set out in the Table in Schedule 1 to IHTA 1984. The NRB is the amount below which no IHT is charged. It is automatically indexed in line with CPI each year unless Parliament otherwise determines.
6. The RNRB is an additional IHT nil-rate band that is available from 6 April 2017 to those passing on a qualifying residence on death to their direct descendants. The taper threshold reduces the amount of the RNRB by £1 for every £2 the estate is worth more than £2,000,000.
7. The RNRB and RNRB taper threshold are subject to automatic indexation in line with CPI each year unless Parliament otherwise determines.
8. Legislation was introduced in Finance Act 2021 to fix the NRB, RNRB, and RNRB taper threshold at their 2020 to 2021 levels for the tax years up to and including 2025 to 2026.

Part 5: Taxation of vehicles

Clause 10: Removal of VED exemption for electrically propelled vehicles etc.

Summary

1. This clause makes a number of changes to the Vehicle Excise Duty (VED) rates for low and zero emission cars, vans and motorcycles by amending the Vehicle Excise and Registration Act (VERA 1994) and the revocation of the Graduated Vehicle Excise Duty (Prescribed Types of Fuel) Regulations 2001. These changes will bring the rates for low and zero emission cars, vans and motorcycles in line with petrol and diesel vehicles, and will take effect on or after 1 April 2025.

Details of the clause

2. Subsection (2) amends paragraph 20G of Schedule 2 to VERA 1994 (exemption for electrically propelled vehicles) so that electric cars, vans and motorcycles are no longer exempt from the requirement to pay VED.

3. Subsection (3) revokes the exemption from VED for other low carbon light passenger vehicles (e.g. cars) currently found in paragraph 25 of that Schedule.

4. Subsection (4) amends Schedule 1 (annual rates of duty) to VERA. Paragraph 1GB of that Schedule is omitted so that electric vehicles (EVs) will now need to pay the first-year registration VED rate. Paragraph 1GE(1) of that Schedule is amended so that EVs registered on or after 1 April 2025 with a list price exceeding £40,000 will now be liable to pay the higher rate of duty ('Expensive Car Supplement'). An exception is made for any new taxi which is a "taxi capable of zero emissions" (within the meaning of paragraph 1GG of Schedule 1 to VERA 1994). Finally, Schedule 1, paragraph 2 (motorcycles) is amended so that some electric motorcycles can continue to be exempt from VED if they are specified in regulations.

5. Subsection (5) makes consequential amendments to Schedule 1 to VERA 1994 so that vehicles that are now no longer exempt as a result of the amendments made by subsections (2) to (4) are treated the same as equivalent petrol or diesel vehicles that were not exempt.

6. Subsection (6) revokes the Graduated Vehicle Excise Duty (Prescribed Types of Fuel) Regulations 2001 (S.I. 2001/93). The effect of this is that hybrids and alternative fuel vehicles no longer benefit from a reduced rate of VED.

7. Subsection (7) provides that the amendments have effect from 1 April 2025, but will not affect licences taken out before that dates. So if a licence for a previously exempt vehicle was taken out on 31 March 2025, the first time duty will have to be paid will be in respect of the licence taken out on the same date the following year.

Background note

8. The government uses the tax system to encourage the take-up of cars with low CO_2 emissions to help meet legally binding climate change targets. From 1 April 2017, a reformed VED system was introduced for new cars. This measure will remove the VED exemption for electric cars, but will maintain a first-year rate of £10 for these vehicles.

9. The ECS was introduced in 2017 for all new cars with a list price exceeding £40,000. Originally the ECS also applied to electric cars. Electric cars were exempted from the ECS in Spring Budget 2020. The electric car exemption from the ECS is found in Schedule 1, part 1AA of VERA 1994. The legislation is not time limited, so while the government only committed to exempting electric cars from the ECS until 31 March 2025, the exemption would have continued in perpetuity without amending legislation. VERA 1994 is amended so that new electric cars will be eligible to pay the ECS. New taxis capable of zero emissions continue to be exempt from paying the ECS after 1 April 2025.

10. The measure will bring EVs into the motoring tax system alongside their petrol and diesel counterparts, as they start to constitute a greater proportion of vehicles on the road.

11. If you have any questions about this change, or comments on the legislation, please contact ETTAnswers@hmtreasury.gov.uk.

Clause 11: Taxable benefits: appropriate percentage for cars with a CO_2 emissions figure

Summary

1. This clause amends the appropriate percentage, which is used for the purpose of calculating the taxable benefit of a company car, for the tax years 2025 to 2026, 2026 to 2027 and 2027 to 2028.

2. These changes will increase the appropriate percentage for cars which produce zero emissions and cars which produce less than 75 grams of Carbon Dioxide (CO_2) per kilometre driven for the tax year 2025, 2026 and 2027 by 1 percentage point (ppt), up to a maximum appropriate percentage of 21%.

3. For cars with emissions of 75 grams CO_2 per kilometre and upwards, the appropriate percentage will be increased by 1 ppt for the tax year 2025 to 2026 only and will then be maintained at this level until 5 April 2028, up to a maximum appropriate percentage of 37%.

4. This will increase the level of chargeable benefit for company car tax for employees and of Class 1A National Insurance contributions (NICs) for employers.

5. These changes have effect for the tax year 2025-2026 and subsequent tax years.

Details of the clause

6. Subsection (1) introduces amendments to Chapter 6 of Part 3 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) (taxable benefits: cars, vans and related benefits) by substituting the table in s139(1) which increase the appropriate percentages for cars with CO2 emissions of 0 to <75 grams per kilometre by 1%.

7. Subsection (2) provides for amendments made in subsection (1) to have effect for the tax year 2025-26.

8. Subsection (3) modifies s139(3)(a) to increase the appropriate percentage for a year for a car with a CO_2 emissions figure of 75 or more to 21% plus one percentage point for each 5 grams per kilometre driven by which the CO_2 emissions figure exceeds 75 up to a maximum set by s139(3)(b) of 37%.

9. Subsection (4) provides for amendments made in subsection (3) to have effect for the tax year 2025-26 and subsequent tax years.

10. Subsection (5) substitutes the table in s139(1) which increase the appropriate percentages for cars with CO_2 emissions of 0 to <75 grams per kilometre by a further 1%.

11. Subsection (6) provides for amendments made in subsection (5) to have effect for the tax year 2026-27.

12. Subsection (7) substitutes the table in s139(1) which increase the appropriate percentages for cars with CO_2 emissions of 0 to <75 grams per kilometre by a further 1% up to a maximum of 21%.
13. Subsection (8) provides for amendments made in subsection (7) to have effect for the tax year 2027-28 and subsequent tax years.

Background note

14. Section 139 ITEPA sets out the basis for determining the appropriate percentage for cars with a registered CO_2 emissions figure.
15. These changes will continue to support the wider market for electric vehicles and ultra-low emission vehicles, while beginning the process of equalising rates for electric, petrol and diesel cars in the longer term. In addition, the increase in appropriate percentages will ensure the tax system continues to support the sustainability of the public finances.
16. The government is committed to legislating in advance of the implementation date so that employers and employees can make informed choices about what type of vehicles they use and future tax implications.

Part 6: Final

Clause 12: Short title

1. This clause provides for the bill to be known as "Finance (No.2) Act 2022" upon Royal Assent.

Territorial extent and application in the United Kingdom

The Bill extends to England and Wales, Scotland and Northern Ireland.

In the view of HM Government—

a. all of the provisions of the Bill apply to the whole of the United Kingdom, although clauses 5 and 6 apply slightly differently in Scotland to way they apply in the rest of the United Kingdom (because of the power of the Scottish Parliament to set Scottish rates applying to income which is not savings or dividend income), and

b. none of its provisions relate to matters which are within the legislative competence of the Scottish Parliament, Senedd Cymru or the Northern Ireland Assembly (and accordingly no Legislative Consent Motions are required).

Provision	**England**	**Wales**		**Scotland**		**Northern Ireland**	
	Extends to E & W and applies to England?	**Extends to E & W and applies to Wales?**	**Legislative Consent Motion process engaged?**	**Extends and applies to Scotland?**	**Legislative Consent Motion process engaged?**	**Extends and applies to Northern Ireland?**	**Legislative Consent Motion process engaged?**
Clauses 1 to 12	Yes	Yes	N/A	Yes	N/A	Yes	N/A

FINANCE BILL

EXPLANATORY NOTES

These Explanatory Notes relate to the Finance Bill as introduced in the House of Commons on 22 November 2022 (Bill 197).

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