Motability

The leading car scheme for disabled people

Warwick House
Roydon Road
Harlow
Essex CM19 5PX

Tel: 01279 635999
Fax: 01279 632000

motability.org.uk

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The Rt Hon Frank Field MP
Chair, Work and Pensions Committee

The Rt Hon Nicky Morgan MP
Chair, Treasury Committee

Dear Nicky Morgan & Frank Field,

MOTABILITY TAX RELIEFS

I would like to repeat my thanks for the opportunity to present to your joint evidence session on 9 January on the issues arising from the National Audit Office (NAO) review of the Motability Scheme.

We are providing the information requested during the session in a separate letter. In this letter, we thought it would be helpful to provide some further context on one issue raised during the session, by Nigel Mills MP. This was the figure of "£888m" which the NAO report uses to quantify the annual value of the tax reliefs that benefit the Scheme. We believe it is vital that Committee members and all those interested in the Scheme understand what the tax reliefs represent.

In view of your letter of 21 January to The Rt Hon Mel Stride MP, Financial Secretary to the Treasury, we are providing a copy of this letter to him.

1. **The entire benefit of the tax reliefs is passed direct to customers**. As a result of the VAT reliefs, each customer typically saves around £3,600 per lease. This reflects the history of the reliefs, which were offered very early on in the Scheme by Government to help make leases affordable by disabled people, who would not otherwise be able to afford them. We are very grateful for this support. The tax reliefs therefore contribute directly to value for money – as the NAO report itself recognises (in paragraph 11 of the Summary), the lease prices offered by Motability Operations are 44% cheaper on average than comparable leasing products in the wider market — nearly two-fifths of this discount arises directly from the tax reliefs.

2. **The figure of £888 million is a hypothetical maximum, based on unfounded assumptions**. It is generated by multiplying the maximum amount of tax otherwise collectable if the reliefs did not exist by the number of customer leases. The NAO themselves acknowledge this to be both an estimate, and a maximum. In Footnote 3 to Figure 5 of their report, the NAO also acknowledge that:

> *"The **maximum estimate** assumes that there would be **no impact*** [our emphases] *on the volume of scheme customers as a result of lease prices increasing in the absence of tax concessions."*

In fact, this assumption is wholly unfounded: we know that the vast majority of disabled people on the Scheme are not on the sort of income that could absorb a price increase of £3,600 per lease (if the VAT relief were not available; more if the Insurance Premium Tax relief were not available).

3. **The net loss to Treasury is *de minimis***. Previous research suggests that approximately 80% of Scheme customers would not be able to access finance to buy a new car if the Scheme did not exist. Taking into account that a new car is subject to immediate depreciation, many would simply prefer to buy a cheaper used car, or access some other mobility solution. If they were buying a used car, the VAT would not be calculated on the full price of the car, but only on the dealer's profit margin, yielding a much lower amount of VAT (see the annex to this letter for examples of likely scenarios). If they were hiring a taxi, VAT would not be payable in those many cases where the taxi driver was not VAT-registered. It is of course also possible that customers might purchase other goods and services using their qualifying disability allowances: a significant proportion of these (food, for example) would be likely to be exempt from VAT or zero-rated in any event.

For all the above reasons we and Motability Operations consider that the £888 million figure is essentially meaningless. It ignores the resources of disabled customers of the Scheme.

We also feel it important to highlight that the Motability Scheme itself generates significant tax income for the Exchequer beyond that generated by Motability Operations. In their 2018 report, Oxford Economics estimated this to be £611m p.a. for the period October 2015 to September 2016 (Report attached, see Section 2.6.3 'Taxes').

In conclusion, thank you for your warm words recognising the significant benefits the Motability Scheme provides to enhance the lives of disabled people and their families, which were appreciated by all those involved with the Scheme. We will continue to use our best endeavours to provide the quality of service needed and value for money in the years to come, assisting many more disabled people on their "Road to Freedom". Over the decades the tax reliefs have been very helpful and greatly appreciated.

Yours

cc Sir Amyas Morse, KCB, Comptroller and Auditor General, National Audit Office
Rt Hon. Mel Stride MP, Financial Secretary to the Treasury

Annex

Examples of VAT payable to HMRC should Scheme customers seek alternate means of transport.

Customer purchases a 7-10-year-old vehicle.

Based on knowledge of the dealer network, it is estimated that the average 7-10-year-old vehicle is sold with an £800 margin (VAT-inclusive) from dealer to retail. This would result in VAT payable of £133 per vehicle to HMRC. Assuming that this option were adopted by all customers for whom Motability Operations expects to write new leases each year (circa 220,000), this would result in total VAT collected by HMRC of circa **£29m per annum**.

Customer saves full allowance over 3 years and purchases a £10k vehicle

It is estimated that the average £10k vehicle is sold with a total (VAT-inclusive) margin of £800. Of this only £500 is generated from the vehicle itself, the remaining from Finance and Insurance products. The VAT payable on the £500 margin is £83. Again, assuming that all 220,000 customers chose this option, circa **£18m** would be due in VAT from the sale of these vehicles.

Customer buys 7-10-year-old vehicle and remaining allowance is used on VAT-able purchases

After purchasing a 7-10-year-old vehicle, customers might spend the remainder of their allowance over a 3-year period on goods which are sold with 20% VAT. If we assume each customer spends £3,850[1] on a vehicle, as above with an £800 margin, then this would yield £133 VAT.

The total allowance over 3 years, for vehicles leased in FY2019 Q2, is £9.7k. The customer would therefore have a balance of £5,850 to spend as they see fit. If the entire amount were spent on goods bearing 20% VAT this would yield an additional £969 in VAT (added to the £133, a total VAT yield of £1,102). Should all 220k customers spend their allowance in this way then this would lead to total income for the revenue of **£242m** per annum

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[1] *£3,850 for 7yr/70k Ford Focus, Petrol, 1.0 EcoBoost Zetec 5dr*