



Income Tax (Earnings and Pensions) Act 2003

2003 CHAPTER 1

PART 3

EMPLOYMENT INCOME: EARNINGS AND BENEFITS ETC. TREATED AS EARNINGS

CHAPTER 6

TAXABLE BENEFITS: CARS, VANS AND RELATED BENEFITS

Cars: benefit treated as earnings

120 Benefit of car treated as earnings

- (1) If this Chapter applies to a car in relation to a particular tax year, the cash equivalent of the benefit of the car is to be treated as earnings from the employment for that year.
- (2) In such a case [^{F1}(including a case where the cash equivalent of the benefit of the car is nil)] the employee is referred to in this Chapter as being chargeable to tax in respect of the car in that year.
- [^{F2}(3) Any reference in this Act to a case where the cash equivalent of the benefit of a car is treated as the employee's earnings for a year by virtue of this section includes a case where the cash equivalent is nil.]
- [^{F3}(4) This section is subject to section 120A.]

Textual Amendments

- F1** Words in s. 120(2) inserted (with effect in accordance with s. 7(9) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 7\(6\)\(a\)](#)

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- F2** S. 120(3) inserted (with effect in accordance with s. 7(9) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 7\(6\)\(b\)](#)
- F3** S. 120(4) inserted (with effect in accordance with Sch. 2 para. 62 of the amending Act) by [Finance Act 2017 \(c. 10\), Sch. 2 para. 21](#)

[^{F4}120A Benefit of car treated as earnings: optional remuneration arrangements

- (1) Where this Chapter applies to a car in relation to a particular tax year and the conditions in subsection (3) are met—
- (a) the relevant amount (see section 121A) is to be treated as earnings from the employment for that tax year, and
 - (b) section 120(1) does not apply.
- (2) In such a case (including a case where the relevant amount is nil) the employee is referred to in this Chapter as being chargeable to tax in respect of the car in the tax year.
- (3) The conditions are that—
- (a) the car is made available to the employee or member of the employee's household pursuant to optional remuneration arrangements,
 - (b) [^{F5}the total foregone amount in connection with the car for the tax year is] is greater than the modified cash equivalent of the benefit of the car for the tax year (see section 121B), and
 - (c) the car's CO₂ emissions figure (see sections 133 to 138) exceeds 75 grams per kilometre.

[In this section, and in section 121A, the total foregone amount in connection with the ^{F6}(4) car for a tax year is the total of—

- (a) the amount foregone (see section 69B) with respect to the benefit of the car for that year, and
- (b) the amount foregone (see section 69B) with respect to each other benefit that—
 - (i) is connected with the car,
 - (ii) is provided in that year for the employee, or a member of the employee's household, pursuant to optional remuneration arrangements, and
 - (iii) is neither the provision of a driver nor the provision of fuel.]

Textual Amendments

- F4** S. 120A inserted (with effect in accordance with Sch. 2 para. 62 of the amending Act) by [Finance Act 2017 \(c. 10\), Sch. 2 para. 22](#)
- F5** Words in s. 120A(3)(b) substituted (with effect in accordance with s. 7(7) of the amending Act) by [Finance Act 2019 \(c. 1\), s. 7\(2\)\(a\)](#)
- F6** S. 120A(4) inserted (with effect in accordance with s. 7(7) of the amending Act) by [Finance Act 2019 \(c. 1\), s. 7\(2\)\(b\)](#)

121 Method of calculating the cash equivalent of the benefit of a car

- (1) The cash equivalent of the benefit of a car for a tax year is calculated as follows—

Step 1

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Find the price of the car in accordance with sections 122 to [F7124A].

Step 2

Add the price of any accessories which fall to be taken into account in accordance with sections 125 to 131.

Step 3

Make any deduction under section 132 for capital contributions made by the employee to the cost of the car or accessories. [F8The resulting amount is the interim sum.]

Step 4

F9 ...

Step 5

Find the appropriate percentage for the car for the year in accordance with sections 133 to 142.

Step 6

Multiply the interim sum by the appropriate percentage for the car for the year.

Step 7

Make any deduction under section 143 for any periods when the car was unavailable.

The resulting amount is the provisional sum.

Step 8

Make any deduction from the provisional sum under section 144 in respect of payments by the employee for the private use of the car.

The result is the cash equivalent of the benefit of the car for the year.

- (2) The method of calculation set out in subsection (1) is modified in the special cases dealt with in—
- section 146 (cars that run on road fuel gas), and
 - section 147 (classic cars: 15 years of age or more).

[F10(3) Where the car is shared the cash equivalent is calculated under this section in accordance with section 148.]

Textual Amendments

- F7** Word in s. 121(1) substituted (with effect in accordance with s. 54(6) of the amending Act) by [Finance Act 2009 \(c. 10\), s. 54\(3\)](#)
- F8** Words in s. 121(1) inserted (with effect in accordance with Sch. 28 para. 10(2) of the amending Act) by [Finance Act 2009 \(c. 10\), Sch. 28 para. 2\(2\)](#)
- F9** Words in s. 121(1) omitted (with effect in accordance with Sch. 28 para. 10(2) of the amending Act) by virtue of [Finance Act 2009 \(c. 10\), Sch. 28 para. 2\(3\)](#)
- F10** S. 121(3) substituted (1.3.2012) by [The Enactment of Extra-Statutory Concessions Order 2012 \(S.I. 2012/266\), arts. 1, 3\(2\)](#)

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[^{F11}121A] Optional remuneration arrangements: method of calculating relevant amount

- (1) To find the relevant amount for the purposes of section 120A, take the following steps—

^{F12}*Step 1* Take the total foregone amount in connection with the car for the tax year (see section 120A(4)).]

Step 2 Make any deduction under section 132A in respect of capital contributions made by the employee to the cost of the car or accessories.

The resulting amount is the provisional sum.

Step 3 Make any deduction from the provisional sum under section 144 in respect of payments by the employee for the private use of the car.

The result is the “relevant amount” for the purposes of section 120A.

- (2) Where it is necessary, for the purpose of determining the [^{F13}“total foregone amount” for the purposes of] step 1 of subsection (1), to apportion an amount of earnings to [^{F14}a benefit mentioned in section 120A(4)(a) or (b)] for the tax year, the apportionment is to be made on a just and reasonable basis.

In this subsection “earnings” is to be interpreted in accordance with section 69B(5).

Textual Amendments

- F11** Ss. 121A, 121B inserted (with effect in accordance with Sch. 2 para. 62 of the amending Act) by [Finance Act 2017 \(c. 10\)](#), [Sch. 2 para. 23](#)
- F12** Words in s. 121A(1) substituted (with effect in accordance with s. 7(7) of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [s. 7\(3\)\(a\)](#)
- F13** Words in s. 121A(2) substituted (with effect in accordance with s. 7(7) of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [s. 7\(3\)\(b\)\(i\)](#)
- F14** Words in s. 121A(2) substituted (with effect in accordance with s. 7(7) of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [s. 7\(3\)\(b\)\(ii\)](#)

121B Meaning of “modified cash equivalent”

- (1) The “modified cash equivalent” of the benefit of a car for a tax year is calculated in accordance with the following steps (which must be read with subsections (2) to (4))—

Step 1 Find the price of the car in accordance with sections 122 to 124A.

Step 2 Add the price of any accessories which fall to be taken into account in accordance with sections 125 to 131.

The resulting amount is the interim sum.

Step 3 Find the appropriate percentage for the car for the year in accordance with sections 133 to 142.

Step 4 Multiply the interim sum by the appropriate percentage for the car for the year.

Step 5 Make any deduction under section 143 for any periods when the car was unavailable.

The resulting amount is the modified cash equivalent of the benefit of the car for the year.

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- (2) Where the car is shared the modified cash equivalent is calculated under this section in accordance with section 148.
- (3) The modified cash equivalent of the benefit of a car for a tax year is to be taken to be zero if the condition in subsection (4) is met.
- (4) The condition is that the benefit of the car for the tax year would be exempt from income tax but for section 228A (exclusion of certain exemptions).
- (5) The method of calculation set out in subsection (1) is modified in the special cases dealt with in—
 - (a) section 146 (cars that run on road fuel gas), and
 - (b) section 147A (classic cars: optional remuneration arrangements).]

Textual Amendments

F11 Ss. 121A, 121B inserted (with effect in accordance with Sch. 2 para. 62 of the amending Act) by [Finance Act 2017 \(c. 10\)](#), [Sch. 2 para. 23](#)

Changes to legislation:

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Changes and effects yet to be applied to the whole Act associated Parts and Chapters:

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- s. 452(2)(aa) inserted by [2013 c. 29 Sch. 23 para. 11](#)
- s. 574A(2A) inserted by [2024 c. 3 Sch. 9 para. 61\(2\)](#)
- s. 637G(2)(a)(b) inserted by [S.I. 2024/356 reg. 2](#)
- s. 637Q applied (with modifications) by 2004 c. 12, Sch. 36 para. 20(1A) (as inserted) by [2024 c. 3 Sch. 9 para. 77\(3\)](#)
- s. 637R applied (with modifications) by 2004 c. 12, Sch. 36 para. 19(2)(2A) (as substituted) by [2024 c. 3 Sch. 9 para. 76\(4\)](#)
- s. 637S applied (with modifications) by 2004 c. 12, Sch. 36 para. 20(2) (as amended) by [2024 c. 3 Sch. 9 para. 77\(4\)\(a\)](#)
- s. 688AB inserted by [2024 c. 3 s. 17\(1\)](#)
- s. 707A inserted by [2024 c. 3 s. 36\(4\)](#)