



# WLTP Update

## January 2020

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## Introduction

In the UK, as well as across the globe, tackling climate change is at the top of the agenda. With tailpipe CO<sub>2</sub> emissions being one of the primary causes, the automotive industry has been working on ways to reduce harmful emissions - including a new testing procedure for measuring CO<sub>2</sub> emissions.

In September 2017, new laws were introduced that ensured vehicles were tested against more realistic driving measures - this test is known as WLTP. Now in 2020 we see the conversion to using full WLTP data. As an industry we must be prepared for this by acting now.

This report provides guidance on what WLTP is, what has happened to date and what's coming, as well as what impact the new WLTP legislation will have on businesses, fleet drivers and vehicle policy in the future.

## So, what is WLTP?

The World Harmonised Light Vehicle Test Procedure (WLTP) is the new global regulation which measures fuel consumption & CO<sub>2</sub> emissions in light duty vehicles.

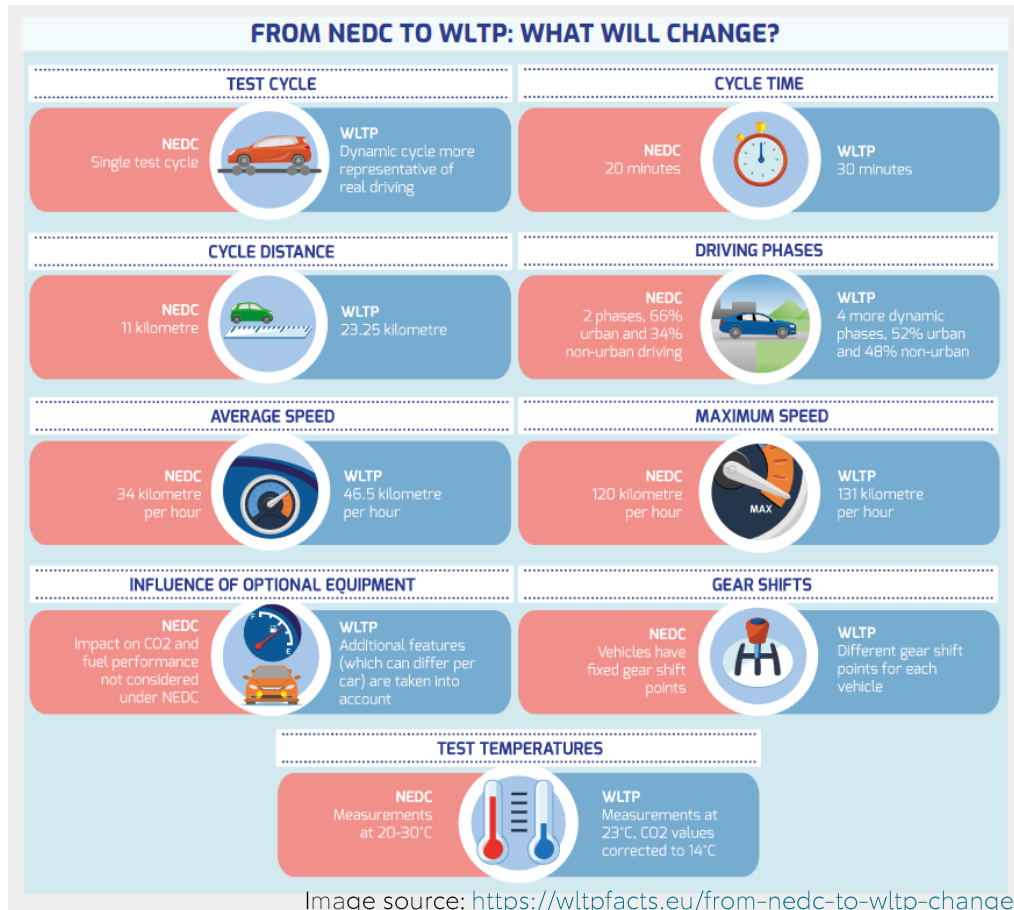
WLTP came into force in 2017, and replaces the New European Driving Cycle (NEDC) test that was designed and developed in the 1990s. NEDC was last updated in 1997 and with technology and driving conditions changing dramatically since the inception of NEDC, the test had become outdated. In response to this, a more realistic test procedure was introduced - WLTP.

WLTP was developed with the aim of being used as a global test cycle.

## NEDC to WLTP- what has changed?

Since September 2017, the old NEDC lab test has gradually been replaced with the WLTP test, with full WLTP test data being used from April 2020 for Cars and April 2021 for Vans.

There are several differences between NEDC and WLTP – the image below shows the changes:



WLTP was introduced to provide more realistic driving conditions. This has been done by including the following:

- More realistic driving behaviour
- A greater range of driving situations
- Longer test distances
- More realistic ambient temperatures, closer to the European average
- Higher average and maximum speeds
- Higher average and maximum drive power
- More dynamic and representative accelerations and decelerations
- Shorter stops
- Optional equipment: CO<sub>2</sub> values and fuel consumption are provided for individual vehicles as built
- Stricter car set-up and measurement conditions
- Enables best and worst-case values on consumer information, reflecting the options available for similar car models



## WLTP Transition Timeline

- 1992** NEDC Introduced by the EU
- SEPT 17** WLTP testing introduced for all new passenger cars being launched
- SEPT 18** All new cars must be certified according to the WLTP test procedure
- JAN 19** Dealerships should display WLTP fuel economy values, to avoid confusion with consumers. CO<sub>2</sub> figures still reflect NEDC Correlated values
- JUN 19** Government release much awaited Company Car Tax (CCT) and WLTP figures for 2020 and beyond
- SEPT 19** All newly registered cars become subject to RDE 2 tests
- SEPT 19** LCV WLTP Introduction using NEDC-2 CO<sub>2</sub> values
- APR 20** All cars must be registered using full WLTP data with options affecting final registered CO<sub>2</sub> value
- APR 21** All LCVs expected to have full WLTP data applied

## How will WLTP impact my business?

There are a number of ways that WLTP will impact business and fleets. Here we explore what impacts WLTP may have on your business, and how you can mitigate these by acting now:



### Car & Van Policies

Under the WLTP procedure, average CO<sub>2</sub> emission values are generally expected to rise because the new test procedure simulates a wider range of realistic driving profiles. Estimates are that WLTP CO<sub>2</sub> emissions will be anywhere from 10-20% higher than those generated by the NEDC test.

With a high focus being placed on reducing carbon footprint, many company vehicle policies include a CO<sub>2</sub> threshold.

#### Car Policies

As a consequence, if you have included a CO<sub>2</sub> limit in your car policy, it is recommended that you analyse the exact impact of the new CO<sub>2</sub> values on your vehicle list.

Manufacturers are also likely to change the way they package up options. Evidence has already been seen of this and is expected to continue through to April 2020. It is recommended that you carry out a review of your fleet policy and vehicle list as there is a likelihood that the vehicle choice is going to change.

#### Van Policies

We are still waiting on more information on how WLTP will impact vehicle conversions. However, as drivers are generally not impacted by tax on vans, the only expected impact WLTP will have on van vehicle policies is around environmental impact and CO<sub>2</sub> targets.



## Whole Life Costs

The introduction of WLTP has the potential to trigger an increase in whole life costs for fleets. Here we provide some examples of how.

### Fuel Consumption

- If CO<sub>2</sub>/fuel consumption measurements increase then the published MPG will reduce, thus impacting fuel costs within a whole life cost model

### Capital Allowances

The capital cost of any new car bought outright by a company can be written down against corporation tax based on the car's emissions of CO<sub>2</sub>.

A reduction in the capital allowance CO<sub>2</sub> emissions threshold will result in less vehicles being eligible for the higher 18% write-down allowance, with more only being eligible for the 6% allowance. Potential increases in published CO<sub>2</sub> as a result of new NEDC2 and WLTP testing would exaggerate this further.

Cars with CO<sub>2</sub> emissions 51-110g/km - annual write-down allowance = 18% a year  
Cars with CO<sub>2</sub> emissions of 111g/km or more - annual write-down allowance = 6% a year

The subsequent increase in cars in the 6% a year group will potentially result in increased monthly Contract Hire costs due to the funders increasing interest rates to counteract the reduced Capital Allowance.

### Lease Rental Restriction

The amounts payable on lease rentals are an allowable expense for businesses that can be offset against tax. In April 2018, the threshold was set at 110g/km.

Increased CO<sub>2</sub> measurements as a result of WLTP may move a vehicle into a higher band and thus reduce the amount that can be offset against tax

New cars with CO<sub>2</sub> emissions of 110g/km or less = 100% of their lease payments can be written down against tax.

Cars with CO<sub>2</sub> emissions of 111g/km or more, only 85% can be written down against tax

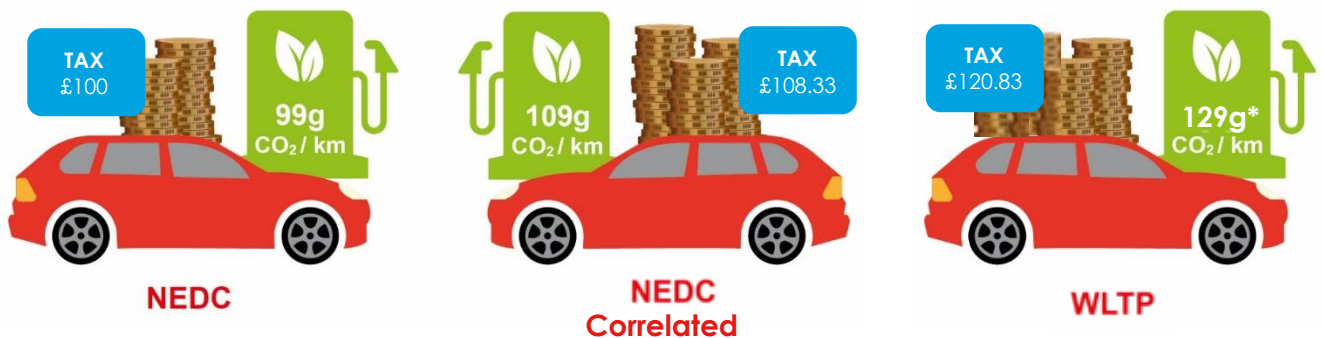


## Taxation

The following UK taxes are based on CO<sub>2</sub> emissions and are therefore likely to increase:

- Vehicle Excise Duty (VED)
- Company car tax (Benefit in Kind - BiK)
- Class 1A (Employer) National Insurance Contributions

Here we show a real-life taxation example.



\*from April 2020 options may also influence the CO<sub>2</sub> of a car and this may result in further movements between CO<sub>2</sub> tax bands.

In July 2019 the Government confirmed the long-awaited response to its review of WLTP and company car tax (CCT), announcing a freeze on company car tax as well as a zero Benefit-in-Kind rate for fully electric vehicles.

The announcement gave some clarity to both fleet managers and company car drivers, which has been long overdue.

The HM Treasury has created two new BiK tables, which can be seen on the next page. From 2023/24, fleets will have one BiK tax table again as the rates are realigned.



## Company Car tax for cars registered **before** 6 April 2020

Cars first registered before 6 April 2020				
CO <sub>2</sub> emissions (g/km)	Electric range (miles)	Appropriate Percentage (%)		
		2020-21	2021-22	2022-23
0	N/A	0	1	2
1-50	>130	2	2	2
1-50	70-129	5	5	5
1-50	40-69	8	8	8
1-50	30-39	12	12	12
1-50	<30	14	14	14
51-54		15	15	15
55-59		16	16	16
60-64		17	17	17
65-69		18	18	18
70-74		19	19	19
75-79		20	20	20
80-84		21	21	21
85-89		22	22	22
90-94		23	23	23
95-99		24	24	24
100-104		25	25	25
105-109		26	26	26
110-114		27	27	27
115-119		28	28	28
120-124		29	29	29
125-129		30	30	30
130-134		31	31	31
135-139		32	32	32
140-144		33	33	33
145-149		34	34	34
150-154		35	35	35
155-159		36	36	36
160 and over		37	37	37

## Company Car tax for cars registered **after** 6 April 2020

Cars first registered from 6 April 2020				
CO <sub>2</sub> emissions (g/km)	Electric range (miles)	Appropriate Percentage (%)		
		2020-21	2021-22	2022-23
0	N/A	0	1	2
1-50	>130	0	1	2
1-50	70-129	3	4	5
1-50	40-69	6	7	8
1-50	30-39	10	11	12
1-50	<30	12	13	14
51-54		13	14	15
55-59		14	15	16
60-64		15	16	17
65-69		16	17	18
70-74		17	18	19
75-79		18	19	20
80-84		19	20	21
85-89		20	21	22
90-94		21	22	23
95-99		22	23	24
100-104		23	24	25
105-109		24	25	26
110-114		25	26	27
115-119		26	27	28
120-124		27	28	29
125-129		28	29	30
130-134		29	30	31
135-139		30	31	32
140-144		31	32	33
145-149		32	33	34
150-154		33	34	35
155-159		34	35	36
160-164		35	36	37
165-169		36	37	37
170+		37	37	37



## What's next?

Here at KINTO we continue to work with the industry to ensure we keep you informed about the latest changes and any impacts they may have on running your fleet. Our systems are updated based on the information currently available.

However, we continue to wait on the industry and Government to provide guidance and clarity on the following:

- What is the basis of the electric range data to be used for BIK calculations?
- Manufacturers to tell us what vehicles are RDE2 compliant
- Understanding on data to provide indicative CO<sub>2</sub> figures based on vehicle configuration and options

We will continue to update you as new information comes to light, but if you have any specific queries around the impact of WLTP on your fleet please contact KINTO.

## Glossary of terms

With so many acronyms and abbreviations to get your head around, we've put together the below glossary of terms to help understand this complex topic.

<b>WLTP</b>	WLTP stands for World Harmonised Light Vehicle Test Procedure. It is a replacement for the New European Driving Cycle (NEDC) test. The standardised test procedure measures the emissions and fuel consumption of a vehicle and is being introduced to achieve an internationally standardised measure across passenger carrier vehicles and light commercial vehicles that seeks to be more realistic for consumers.
<b>RDE</b>	The Real Driving Emissions (RDE) test measures the pollutants, such as NO <sub>x</sub> , emitted by cars while driver on urban and rural roads as well as motorways for 90 minutes. <b>RDE step 1</b> (with a NO <sub>x</sub> conformity factor of 2.1) applies since 1 September 2017 for new car types. It will apply to all types as from September 2019. <b>RDE step 2</b> (with a NO <sub>x</sub> conformity factor of 1.0 plus an error margin of 0.5) will apply in January 2020 for new types and then from January 2021 for all types.
<b>NEDC</b>	NEDC stands for New European Driving Cycle. It is the old lab test, that was introduced by the European Union (EU) in 1992 and has become outdated due to several evolutions in technology and driving conditions.
<b>NEDC 2</b>	NEDC 2 is for LCVs - During a transitional period between September 2019 and April 2021, the WLTP values for new LCVs will be back calculated to NEDC figures (known as NEDC 2.0), using CO <sub>2</sub> MPAS.
<b>NEDC Correlated / NEDC-C</b>	NEDC Correlated is for cars - During a transitional period between September 2019 and April 2021, the WLTP values for new vehicles will be back calculated to NEDC figures (known as NEDC Correlated or NEDC-C), using CO <sub>2</sub> MPAS.
<b>CO<sub>2</sub>MPAS</b>	CO <sub>2</sub> MPAS is a model developed by the European Commission that aims to give a vehicle tested under WLTP comparable CO <sub>2</sub> values to those that would have been measured under NEDC.
<b>CO<sub>2</sub></b>	Carbon Dioxide
<b>Real World</b>	Conditions that affect a vehicle's performance when it's being driven on the road rather than being tested in a lab environment. Real world conditions are variable, therefore making reliable and repeatable testing of emissions difficult.
<b>BIK</b>	Benefit in Kind
<b>CCT</b>	Company Car Tax



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