



HM Revenue  
& Customs

# VAT relief on substantially and permanently adapted motor vehicles for disabled wheelchair users

## **Consultation document**

Publication date: 30 June 2014

Closing date for comments: 19 September 2014

<b>Subject of this consultation:</b>	Reform of the VAT zero rate relief on motor vehicles that have been substantially and permanently adapted for use by a disabled wheelchair user.
<b>Scope of this consultation:</b>	This consultation seeks views on proposals to reform the relief within European law. General comments about the relief will be welcome in addition to any responses to the questions raised in this document.
<b>Who should read this:</b>	Disabled and chronically sick people who are wheelchair users and charities purchasing adapted motor vehicles. Disabled and chronically sick people and charities purchasing adapted boats. Dealers involved in the sale of adapted motor vehicles and boats. Groups representing disabled people. Groups representing motor vehicle and boat dealers.
<b>Duration:</b>	The consultation opens on 30 June 2014 and closes on 19 September 2014.
<b>Lead official:</b>	Michelle Stokell, HM Revenue and Customs.
<b>How to respond or enquire about this consultation:</b>	Responses to this consultation can be sent by e-mail to: <a href="mailto:Charitypolicy.taxteam@hmrc.gsi.gov.uk">Charitypolicy.taxteam@hmrc.gsi.gov.uk</a> or by post to:  Adapted Motor Vehicles Consultation Room G66 100 Parliament Street London SW1A 2BQ.  Telephone enquiries call 03000 518538 or 03000 585127
<b>Additional ways to be involved:</b>	The consultation team would be happy to meet with interested parties during the consultation period. Please email the team at the address above to register an interest. Where there is enough interest a general meeting will be organised in London.
<b>After the consultation:</b>	A summary of responses to the consultation will be published later in the year. Legislative changes would be made in a future Finance Bill or by Statutory Instrument, if appropriate.
<b>Getting to this stage:</b>	Following an announcement at Autumn Statement 2012, HMRC has been collating evidence about the use of the relief from suppliers and charities. A consultation on reform of the relief was announced at Budget 2014.
<b>Previous engagement:</b>	Prior to Budget 2014, HMRC officials held informal discussions with charities, businesses adapting motor vehicles and representative groups to inform development of the proposals set out in this consultation document.

# Contents

	Page
1 Introduction	4
2 Overview of the VAT Relief	8
3 Problems with the Relief	11
4 Proposals	13
5 Assessment of Impacts	19
6 Summary of Consultation Questions	21
7 The Consultation Process: How to Respond	23
Annex A Legislation	25

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# 1. Introduction

## Background

- 1.1 HM Revenue & Customs (HMRC) has evidence of abuse of the VAT zero rate relief on the supply of motor vehicles that have been substantially and permanently adapted for the personal use of a disabled person who normally uses a wheelchair.
- 1.2 Following an announcement at Autumn Statement 2012, HMRC has been collating evidence from suppliers of adapted motor vehicles and boats about the use of the VAT zero rate relief through a voluntary reporting scheme.
- 1.3 Budget 2014 announced a consultation on reforming the relief in the light of the continuing abuse and uncertainty over the law. Any reforms would be taken forward in a future Finance Bill or by Statutory Instrument, if appropriate.

## Aim of this consultation

- 1.4 This consultation document asks for views on proposals to reform the VAT zero rate relief available on the supply of adapted motor vehicles for the personal use of disabled people.
- 1.5 The relief applies to vehicles that have been substantially and permanently adapted to enable a person who normally uses a wheelchair to enter, and drive or travel in, the vehicle.
- 1.6 However, the relief has become subject to abuse. This paper asks for views on proposals to reform the relief, to ensure that it can only be claimed by the people for whom it is intended.
- 1.7 HMRC has held informal discussions with charities representing disabled people and with suppliers of adapted motor vehicles. Their views have informed the proposals put forward in this consultation document.

## Policy rationale

- 1.8 The Government recognises the additional costs involved in purchasing a vehicle that has been permanently and substantially adapted for the personal use of a disabled person and that extensive adaptation can result in a reduction in the value of the vehicle.
- 1.9 The adaptations needed by some disabled people, to allow them to enter and drive, or travel in, a vehicle are substantial, expensive and not easily reversible. These adaptations, though necessary for the disabled person, can also affect the resale value of the vehicle. Most potential purchasers of the used vehicle would want to reverse the adaptations but, where the adaptations are extensive, the cost of changing them is high and causes greater depreciation to the value of the vehicle.

- 1.10 The purpose of the VAT zero rate of relief on the supply of a vehicle that has been permanently and substantially adapted for the personal use of a disabled person is to help mitigate the extra costs and losses incurred in purchasing a vehicle that has been adapted, compared to purchasing a vehicle that has not been adapted.

## Background to the relief

- 1.11 VAT is a European Union (EU) tax. The UK maintains its current zero rate of VAT through agreements with the other EU Member States. Under these long-standing formal agreements the United Kingdom (UK) can keep its existing VAT zero rate reliefs but cannot extend their scope or introduce new ones.
- 1.12 Most vehicles are subject to the standard rate of VAT, which is currently 20%. However, a VAT zero rate relief on adapted motor vehicles was introduced in 1982. It was varied slightly in 2001 to allow a disabled wheelchair user to sit on one of the seats in the vehicle rather than travelling whilst seated in a wheelchair.
- 1.13 Vehicles qualifying for the relief must be ‘substantially and permanently adapted’. However, in practice, the Tax Tribunal has interpreted the law to include an adaptation that may consist of something as simple as a removable hand control or steering wheel knob that can be installed or removed in five minutes at minimal cost.
- 1.14 HMRC’s evidence from auditing suppliers shows that almost all of the zero-rated vehicles purchased privately are luxury cars and motorhomes. Many of them are sold with minor, low-cost and easily removable adaptations. The VAT relief being given is therefore disproportionately high.
- 1.15 From discussions with charities that represent and work with disabled people, it seems that the majority of wheelchair users rely on vehicles supplied through the Motability scheme. (The Motability scheme is unaffected by this consultation.)
- 1.16 While some suppliers do carry out extensive adaptations, most vehicles supplied using the relief have minor adaptations, usually costing less than £600. The adaptations are easily reversed and the vehicles are often sold on very quickly, with little or no loss in depreciation.
- 1.17 The 20% VAT relief on the purchase price means that the buyer can make a substantial profit on the resale of the vehicle. Where there have been waiting lists for a particular model of car, the cars can even appreciate and can be sold on at profit over the original VAT inclusive price.
- 1.18 The relief is being targeted and abused by individuals and organisations that purchase vehicles at the zero rate of VAT in order to sell them on for profit. This is clearly not what the relief was designed or intended for.

- 1.19 Some of the adaptations that are being made are unnecessary and dangerous. They are being made in order to supply the vehicle at the zero rate of VAT, and with the intention of removing them once the purchase is complete. For example, equipment that should support the weight of a wheelchair user or hold a wheelchair in place is being fitted incorrectly and would pose a safety risk to anyone who relied on it.
- 1.20 Compliant suppliers of motor vehicles are struggling to apply the law without exposing themselves to VAT assessments and penalties, which are payable when vehicles are incorrectly sold without VAT. They are also facing unfair competition from suppliers who are prepared to bend the rules.

### Scope of the consultation

- 1.21 This consultation seeks views on proposals to amend the rules for the zero rate relief on adapted motor vehicles.
- 1.22 There is a similar zero rate relief on the purchase of boats that are adapted for the personal use of a disabled person. It is proposed that any relevant changes in respect of the relief on adapted motor vehicles are applied to that relief as well.
- 1.23 There are limits on the possible reforms of the reliefs on adapted motor vehicles and boats.
- 1.24 The following areas are out of the scope of this consultation.
- Changes that infringe wider VAT and EU law.
  - Extending the scope of the reliefs, for example to extend the relief on adapted motor vehicles to cover all disabled people or to cover all vehicles or boats purchased by disabled people.
  - Capping the value of a motor vehicle that can be purchased using the relief. VAT legislation does not allow the VAT liability to be determined on the basis of the cost or value of a product.
  - Changes to the Motability scheme and the VAT relief for letting on hire of a motor vehicle under the Motability scheme.
  - Changes to the separate VAT relief that zero-rates the service of adapting goods to suit the needs of a disabled person. This relief zero-rates the cost of adapting a motor vehicle but does not zero-rate the supply of the motor vehicle itself.

### Contents of this consultation

- 1.25 The rest of this consultation paper is set out as follows:

- Chapter 2 is an overview of the relief
- Chapter 3 explains the problems with the relief
- Chapter 4 gives some proposals to deal with the problems and the questions we would like you to consider
- Chapter 5 is an assessment of impacts for the proposals
- Chapter 6 is a summary of the questions we would like you to respond to in your reply to this consultation.

## 2. Overview of the VAT Relief on Adapted Motor Vehicles for Disabled Wheelchair Users

- 2.1 The legislation providing the zero rate relief of VAT on adapted motor vehicles can be found at Item No. 2A and Notes (5) and (5L) of Group 12 of Schedule 8 to the VAT Act (VATA) 1994. The legislation providing the zero rate of VAT relief on adapted boats can be found at Item No. 2(i) and Note (5) of Group 12 of Schedule 8 to VATA 1994.
- 2.2 The supply of an adapted motor vehicle can be zero-rated for VAT when it is supplied to a disabled person, who usually uses a wheelchair or is usually carried on a stretcher, when the following conditions are met.
- The vehicle seats no more than 12 people, including the driver.
  - The vehicle has been designed or substantially and permanently adapted to enable a disabled wheelchair (or stretcher) user to enter, and drive or otherwise be carried in the motor vehicle; or designed or substantially and permanently adapted to include features whose design is such that their sole purpose is to allow a wheelchair used by a disabled person to be carried in or on the motor vehicle.
  - The vehicle is for the domestic or personal use of the disabled wheelchair or stretcher user.
- 2.3 A vehicle that meets all of the above conditions can also be supplied at the zero rate of VAT to a charity for making available for the domestic or personal use of a disabled person who usually uses a wheelchair, or who is usually carried on a stretcher.

### Wheelchair user

- 2.4 A disabled person who usually uses a wheelchair is a disabled person who is usually reliant on the use of a wheelchair for their day to day mobility requirements.
- 2.5 Someone who prefers to use a wheelchair when, for example, visiting a shopping centre is not a wheelchair user for the purpose of this VAT relief.
- 2.6 Someone who uses a wheelchair temporarily as a result of injury is not a wheelchair user for the purpose of this VAT relief.
- 2.7 A mobility scooter is not a wheelchair for VAT purposes.

## **Substantially and permanently adapted**

- 2.8 HMRC considers that a motor vehicle has been substantially adapted when it has been significantly altered from its base design to enable the wheelchair user to use the vehicle when he or she could not have used it prior to the adaptation.
- 2.9 The adaptation should be necessary and should meet the needs of the customer. It must allow the disabled wheelchair user to either enter and drive, or enter and travel in the vehicle, or it must allow the wheelchair to be carried on or in the vehicle.
- 2.10 A motor vehicle has been permanently adapted when the work undertaken is intended to last indefinitely and the vehicle cannot be reinstated to its original condition easily or quickly. The adaptation would generally require bolting or welding to the vehicle.

## **Allow a wheelchair to be carried in or on the motor vehicle**

- 2.11 A disabled person who usually uses a wheelchair needs to be able to take their wheelchair with them in the vehicle. Wheelchairs designed for permanent use cannot usually be folded up so motor vehicles often need to be substantially adapted to allow the wheelchair to be transferred into the vehicle, using a ramp and a winch or a hoist, and for it to be held safely and securely in place throughout the journey.
- 2.12 Where a wheelchair can be folded and stowed in the boot of a car or in a storage area in the back of a motorhome, the vehicle does not need to be substantially and permanently adapted to carry it. Whilst some minor adaptation may be required, it is not sufficient to meet the 'substantially and permanently adapted' test.

## **Domestic or personal use**

- 2.13 Domestic or personal use is normal everyday use by the disabled wheelchair user, such as going to the shops, taking children to school and travelling to and from work.
- 2.14 Domestic or personal use does not include business use. Business use includes using a vehicle as a taxi, letting it on hire, using it to make business deliveries or purchasing a vehicle with the intention of selling it for profit.
- 2.15 There is currently no limit on the number of motor vehicles that a disabled customer can purchase at the zero rate of VAT. However, purchasing multiple vehicles can be evidence that the personal use condition is not met.

## **Eligibility declaration**

- 2.16 When a supplier sells a zero-rated adapted motor vehicle HMRC recommends that they obtain an eligibility declaration from the purchaser.

- 2.17 The first section of the eligibility declaration is a signed statement from the customer explaining the nature of their condition and confirming that they are a wheelchair user and that they are purchasing the vehicle for personal use.
- 2.18 The second section of the eligibility declaration is a statement by the supplier, giving details of the vehicle supplied and the adaptations made to it to meet the customer's needs, confirming that the vehicle is being supplied for the customer's personal use.
- 2.19 The supplier should be satisfied of the validity of the statement made by the customer and should be able to demonstrate that reasonable steps have been taken to check it, such as requesting supporting information.

### **What happens when things go wrong**

- 2.20 The supplier is responsible for ensuring that VAT is charged at the correct rate.
- 2.21 If a motor vehicle is incorrectly zero-rated then the supplier has to treat the sale as though it was VAT inclusive and must account to HMRC for the VAT. In most cases the supplier is unable to recover the VAT from the purchaser.

## 3. Problems with the Relief

- 3.1 The legislation requires motor vehicles that qualify for the relief to be designed or substantially and permanently adapted to enable a disabled wheelchair user to enter and drive, or otherwise travel in the vehicle.
- 3.2 Few vehicles sold using the relief are designed for use by disabled people. HMRC's evidence indicates that few of the vehicles sold using the relief have any permanent adaptation and few of them are substantially adapted.
- 3.3 The desirability of expensive new motor vehicles and the amount of relief given has attracted abuse and fraud. Most of the vehicles sold using the scheme are high value cars, often sports cars, and motorhomes.
- 3.4 HMRC has limited evidence of any use of the relief for more modest vehicles costing less than £40,000.

### Issues for disabled wheelchair users

- 3.5 Rather than adapting vehicles to meet the needs of the individual disabled wheelchair user, some dealers add the same low cost, easily removable, item to all the vehicles they zero-rate using the relief. These adaptations do not meet the individual needs of wheelchair users that require the vehicle to be substantially adapted.
- 3.6 Where low cost items have been fitted, they are not always fitted correctly. There is no general requirement for the vehicle to undergo any additional safety tests after adaptation. This can lead to superficial adaptations that would pose a danger to anyone who relied on them to enter or travel in the vehicle.
- 3.7 Some dealers that advertise that they adapt vehicles for the use of disabled wheelchair users are actually only able to make very minor changes to the vehicles. They cannot substantially adapt vehicles to meet the needs of disabled wheelchair users, and turn away people whose vehicles need a high level of adaptation. This has left some disabled wheelchair users thinking that their needs cannot be met, even though there are specialist suppliers who can adapt vehicles to suit their condition.
- 3.8 As a result of abuse of the relief and the fact that the supplier has to pay the VAT on vehicles that have been incorrectly zero-rated, some suppliers that are capable of substantially adapting vehicles for wheelchair users now refuse to offer this service.

### Issues for motor dealers

- 3.9 The interpretation of a 'substantially and permanently' adapted vehicle causes practical problems for suppliers of vehicles.

- 3.10 Particular problems are caused by adaptations to enable a wheelchair to be carried in or on the vehicle. In these cases the adaptation has not only to be substantial and permanent but must also include features that are designed solely for the carriage of a wheelchair used by a disabled person.
- 3.11 A number of motor vehicle suppliers have reported feeling pressured into zero-rating the sale of vehicles that they know do not qualify for relief because the customer has accused them of discrimination when they have pointed out that the vehicles do not qualify.
- 3.12 The friends and extended families of disabled wheelchair users often obtain zero-rating on a new vehicle for their own use by claiming that it is being purchased for the domestic or personal use of the wheelchair user. It is difficult for motor dealers to check the accuracy of such claims.
- 3.13 Dealers that have applied the law correctly and refused zero-rating on vehicles that do not qualify, have reported that the potential customer has gone to another dealership that has been willing to zero-rate the supply.
- 3.14 Dealers that do supply substantially and permanently adapted vehicles for disabled wheelchair users have complained that they face competition from those that zero-rate vehicles that have not been substantially adapted.
- 3.15 As a result of the problems faced by dealers, some suppliers now refuse to provide any adaptation services and some have said they would prefer the relief to be abolished.

### **Wider problems with the relief**

- 3.16 HMRC and the police have found that the relief is being abused by individuals and organisations purchasing expensive vehicles with minor, low cost, adaptations at the zero rate of VAT. They remove the adaptations immediately after purchase and sell the vehicles on for profit.
- 3.17 Some motor dealers have colluded in purchasing vehicles at the zero rate of VAT from one another. They then sell the vehicles on for significant profit.
- 3.18 Criminal gangs have been exploiting the relief to launder money and finance other illegal activity.
- 3.19 There is no limit on the number of vehicles that a disabled person may buy. Some people use the zero rate relief to buy several expensive vehicles each year for their own use. While the law does not prevent this, such usage goes against the underlying principle of the relief. The relief is available to help mitigate the costs and losses incurred to enable a disabled person to be mobile, not to subsidise a choice of vehicles for travelling or to help fund the private collections of motor enthusiasts.

## 4. Proposals

- 4.1 Chapter 3 of this consultation document outlines the problems and abuse associated with the VAT zero rate relief on adapted motor vehicles. The Government proposes to take action to address the abuse but wants to ensure that disabled people who need a substantially adapted vehicle are still able to obtain relief from VAT.
- 4.2 The proposals set out in this chapter have been informed by feedback HMRC has received from disabled people, charities representing disabled people, motor vehicle dealers, bodies representing motor vehicle suppliers, the police and Crown Prosecution Service.
- 4.3 HMRC has held detailed discussions with charities that represent disabled people and with businesses that substantially and permanently adapt motor vehicles for the use of disabled wheelchair users.
- 4.4 HMRC has information about fraudulent and abusive use of the relief and purchases of luxury motor vehicles. However, there is very little information about the purchase of standard motor vehicles that have been substantially adapted. The consultation team would appreciate further information about the use and availability of these vehicles and suggestions as to why disabled people do not seem to be purchasing very many of them using this relief.
- 4.5 The Government considers that the proposals, taken together, would curb the abuse and help ensure that the relief is focussed on the people for whom it was designed.

### **Proposal 1 – Reform the VAT zero rate for adapted motor vehicles for disabled wheelchair users**

- 4.6 The Government intends to reform the zero-rate relief on adapted motor vehicles to try and target the reliefs on people who need a vehicle to be substantially adapted for their personal domestic use.

#### **Question 1– Do you agree that reform of the relief is needed?**

#### **If not, why not?**

### **Proposal 2 – Limit the number of adapted motor vehicles a disabled wheelchair user can purchase in a given period**

- 4.7 The VAT reliefs for disabled people are intended to assist with the extra costs they necessarily incur in meeting their needs.

- 4.8 Disabled people who require significant adaptations to a motor vehicle in order to use it have told HMRC that they prefer to keep the same vehicle for some time.
- 4.9 Some disabled people have purchased large numbers of vehicles using the relief. It is difficult to justify providing relief on all vehicles in these cases, even if they are all for personal use.
- 4.10 Fraudulent use of the relief involves purchases of large numbers of vehicles by the same individuals.
- 4.11 Limiting the number of vehicles a disabled wheelchair user can purchase at the zero rate of VAT would be the single most significant proposal in reducing abuse of the scheme. It would disrupt fraudulent use and provide clarity to suppliers as to how many zero-rated adapted vehicles they could supply to an individual within the agreed period.
- 4.12 A reasonable limit on the number of motor vehicles that can be purchased at the zero rate of VAT would be one every three years. This would be consistent with other EU Member States operating similar VAT reliefs on the purchase of adapted motor vehicles and with the Motability leasing scheme.
- 4.13 Of course there may be occasions when a disabled person may need to buy a vehicle more than once in three years. For example, if a vehicle is involved in a road accident and is written off. So the new rules would need to make provision for buying a vehicle within three years when certain circumstances arise.

**Question 2 – Do you agree that, in general, VAT relief should only be allowed on one vehicle, purchased for the personal use of a disabled person, every three years?**

**If not, please give your reasons.**

**Question 3 – Under what circumstances should the rule be relaxed to allow more than one vehicle to be purchased within a three year period?**

### **Proposal 3 – Define the terms ‘substantially’ and ‘permanently’ in the legislation**

- 4.14 The current legislation requires a qualifying motor vehicle to be ‘substantially and permanently adapted’. Some suppliers have been zero-rating vehicles with very minor, easily removable adaptations and the Tax Tribunal has upheld this interpretation.
- 4.15 The relief attracts abuse because cheap, and easily reversible, adaptations can lead to large savings of VAT. For example, the relief gives a VAT saving of £20,000 on a vehicle normally costing £120,000 with adaptations costing £600.

This is a disproportionate level of relief over the cost the relief is intended to mitigate.

- 4.16 It would be possible to specify in the legislation that ‘substantially adapted’ means significantly altered from its base design and refers to the extent of adaptation work to the vehicle, rather than the level of reliance placed upon it.
- 4.17 Another way to target the relief on genuinely substantial adaptations would be to require the cost of the adaptations to be a minimum proportion of the cost of the vehicle. For example, a new requirement could be introduced for the cost of the adaptations to be at least 20% of the cost of the vehicle itself. This would help target the relief on disabled wheelchair users who do need a motor vehicle to be substantially adapted to meet their needs because the costs of substantially adapting a vehicle are much higher than the costs of adding an easily removable item.
- 4.18 Ways of defining ‘permanently’ would be to specify adaptations that exist for the life of the vehicle or that the adaptation to a qualifying vehicle cannot easily or cheaply be reversed.
- 4.19 As explained in Chapter 3, one area of the law that causes particular problems for suppliers is the relief for adaptations for carrying wheelchairs. In order to qualify for relief the adaptations must be permanent and substantial. The proposals for clarifying the meaning of the term ‘substantially and permanently’ would apply equally to adaptations made to allow a wheelchair to be carried.

**Question 4 – Do you agree that a rule specifying a minimum cost of adaptations, of 20% of the cost of the vehicle, should be introduced?**

**If not, what suggestions do you have for defining the ‘substantial adaptation’ of a vehicle?**

**Question 5 – What features do you think a motor vehicle that has been substantially adapted, to enable a disabled wheelchair user to enter and drive or enter and travel in, should include?**

**Question 6 – What adaptations are generally needed by wheelchair users to use a vehicle and/or carry their wheelchairs?**

#### **Proposal 4 – Require suppliers to submit details of zero-rated motor vehicle sales**

- 4.20 HMRC operates a voluntary scheme for motor and boat dealers to send in survey forms giving details of their zero-rated sales. The scheme was introduced to help HMRC identify trends in the number and types of vehicles being sold zero-rated and help to identify potentially fraudulent and abusive practice. However, as this scheme is voluntary, take up has been low.

- 4.21 One way of increasing information about the use of the relief, and thus allowing HMRC to monitor ongoing trends, would be to make the reporting scheme mandatory. Dealers would send HMRC details of all zero-rated sales monthly or quarterly. This would include the make and model of the vehicle, the sale price of the vehicle, the adaptation undertaken, the cost of the adaptation and the name and address of the disabled wheelchair user.
- 4.22 However, a mandatory scheme would require a new administrative framework, potentially including the levying of penalties for non-compliance. It would increase administration for both HMRC and dealers.

**Question 7 – Would motor dealers be generally supportive of supplying information on zero-rated sales to HMRC?**

**Question 8 – What additional administrative burden would this create for dealers?**

**Question 9 – Do you have any alternative proposals that would enable HMRC to monitor zero-rated sales?**

**Proposal 5 – Make the use of eligibility declarations mandatory**

- 4.23 At the moment, HMRC strongly recommends that suppliers obtain eligibility declarations from their customers. Eligibility declarations form part of the evidence that the customer is a disabled wheelchair user purchasing a vehicle that has been adapted for their personal or domestic use.
- 4.24 HMRC has evidence that a number of purchasers have deliberately made incorrect statements on eligibility declarations, so that they can obtain a zero-rated vehicle.
- 4.25 One way to tackle the abuse of the relief would be to make the provision of an eligibility declaration, or a similar certificate, a mandatory condition for obtaining the VAT relief on adapted motor vehicles.
- 4.26 A penalty could be introduced for providing false information on the declaration. A penalty would deter the people who have acted as a front for traders and gangs abusing the relief by buying large numbers of vehicles.
- 4.27 The penalty would be chargeable on the individual who made the false declaration and would be equivalent to the amount of VAT that would have been payable on the vehicle plus 100%. This would ensure that they had to pay the equivalent of the tax avoided and that there was also a deterrent effect.

**Question 10 – Do you agree that a mandatory eligibility declaration should be made for all purchases of zero rate adapted vehicles?**

**Question 11 – Do you agree that a penalty should be chargeable on false declarations?**

**Proposal 6 – Ensure it is clear that users of lower limb prosthetics can benefit from the relief**

4.28 At the moment it is unclear that users of lower limb prosthetics can benefit from the relief. HMRC will provide new guidance to address this position when the relief is reformed.

**Question 12 – Do users of lower limb prosthetics usually own a wheelchair?**

**Question 13 – Would users of lower limb prosthetics use a wheelchair if their prosthetic limbs were not available?**

**Question 14 – What adaptations are generally needed for users of lower limb prosthetics to use a motor vehicle?**

**Proposal 7 – Remove references to stretcher users from the legislation**

- 4.29 The legislation for this relief applies both to people who usually use a wheelchair and to people who are usually carried on a stretcher.
- 4.30 HMRC has not been able to identify any disabled or chronically sick people who are usually carried on a stretcher and purchase motor vehicles for their personal or domestic use.
- 4.31 There is a separate relief for the purchase of ambulances and so it seems there is no need for the relief on adapted motor vehicles. Removing the references to stretcher users would simplify the legislation.

**Question 15 – Other than people transported in ambulances, are you aware of any circumstances where a disabled person is usually carried on a stretcher?**

**Question 16 – Are people that previously needed to be carried on stretchers now able to obtain suitable wheelchairs or prosthetics that meet their needs?**

## **Proposal 8 – Apply the same changes to the zero rate of relief on adapted boats**

- 4.32 The VAT legislation includes a similarly worded relief for adapting boats for use by disabled people.
- 4.33 Where appropriate, the Government proposes to apply the same changes to the relief on adapted boats as are made to the relief on adapted motor vehicles to ensure consistency.

### **Question 17 – Have you experienced any problems using the VAT relief for adapted boats?**

### **Question 18 – What features do you think a boat that has been substantially adapted, for use by disabled people, should have?**

## 5. Assessment of Impacts

<b>Exchequer impact (£m)</b>	The costing is subject to considerable uncertainty due to a lack of data on the use of the relief. The best estimate is that annually the adapted motor vehicles relief costs £65 million, of which about £25 million could be from fraudulent sales.
<b>Economic impact</b>	The measure is not expected to have a significant economic impact. Some individuals and businesses that have been trading in adapted vehicles may experience a reduction in profits because they will no longer be able to profit from the VAT relief. It is not envisaged that it will significantly impact the demand for the manufacture and trade of expensive, luxury cars or motorhomes. The export market is largely responsible for the current demand for luxury motor vehicles.
<b>Impact on individuals and households</b>	Reform of the relief is aimed at tackling fraudulent use of the current scheme but it will impact disabled wheelchair users who wish to purchase more than one adapted motor vehicle at a time or over a specific period. This includes people buying several cars for themselves and their families as well as people who receive a commission for buying the vehicles on behalf of others. However, most disabled people do not have the means to purchase more than one vehicle at a time and the vast majority actually use the Motability scheme. Reform of the relief will still allow people to purchase a vehicle of their choice at the zero rate of VAT. But, if they want to purchase more cars or boats than the limit allows, they will have to pay the full rate of VAT on the additional vehicles, although a separate VAT relief is available on the costs of any adaptations.
<b>Equalities impacts</b>	Changes to the scheme may affect disabled wheelchair users who wish to take advantage of zero-rating. The extent of the impacts will depend on the outcome of the consultation.
<b>Impact on businesses and Civil Society Organisations</b>	Changes to the scheme will affect car dealers that sell adapted motor vehicles. They will incur one-off costs familiarising themselves with the new rules. These compliance costs are likely to be negligible. Clarifying the rules will make it easier for dealers to comply with the law and reduce unfair competition. Compulsory submission of details of zero-rated sales of motor vehicles and boats would result in an increase in the administrative burden for car and boat dealers, although the information required should already be held by them.
<b>Impact on HMRC or other public sector delivery organisations</b>	Reform of the relief should improve compliance and make it easier to police the scheme. This will reduce the operational impact on HMRC compliance teams. Collection and periodic analysis of details of zero-rated sales of motor vehicles and boats would require a little more resource.

**Other impacts**

The impact on small and micro businesses has been considered. Compliance costs are likely to be negligible, but the compulsory submission of details of zero-rated sales would result in an administrative burden for car and boat dealers.

## 6. Summary of Consultation Questions

**Question 1 – Do you agree that reform of the relief is needed?**

**If not, why not?**

**Question 2 – Do you agree that, in general, VAT relief should only be allowed on one vehicle, purchased for the personal use of a disabled person, every three years?**

**If not, please give your reasons.**

**Question 3 – Under what circumstances should the rule be relaxed to allow more than one vehicle to be purchased within a three year period?**

**Question 4 – Do you agree that a rule specifying a minimum cost of adaptations, of 20% of the cost of the vehicle, should be introduced?**

**If not, what suggestions do you have for defining the ‘substantial adaptation’ of a vehicle?**

**Question 5 – What features do you think a motor vehicle that has been substantially adapted, to enable a disabled wheelchair user to enter and drive or enter and travel in, should include?**

**Question 6 – What adaptations are generally needed by wheelchair users to use a vehicle and/or carry their wheelchairs?**

**Question 7 – Would motor dealers be generally supportive of supplying information on zero-rated sales to HMRC?**

**Question 8 – What additional administrative burden would this create for dealers?**

**Question 9 – Do you have any alternative proposals that would enable HMRC to monitor zero-rated sales?**

**Question 10 – Do you agree that a mandatory eligibility declaration should be made for all purchases of zero rate adapted vehicles?**

**Question 11 – Do you agree that a penalty should be chargeable on false declarations?**

**Question 12 – Do users of lower limb prosthetics usually own a wheelchair?**

**Question 13 – Would users of lower limb prosthetics use a wheelchair if their prosthetic limbs were not available?**

**Question 14 – What adaptations are generally needed for users of lower limb prosthetics to use a motor vehicle?**

**Question 15 – Other than people transported in ambulances, are you aware of any circumstances where a disabled person is usually carried on a stretcher?**

**Question 16 – Are people that previously needed to be carried on stretchers now able to obtain suitable wheelchairs or prosthetics that meet their needs?**

**Question 17 – Have you experienced any problems using the VAT relief for adapted boats?**

**Question 18 – What features do you think a boat that has been substantially adapted, for use by disabled people, should have?**

## 7. The Consultation Process

7.1 This consultation is being conducted in line with the Tax Consultation Framework. There are 5 stages to tax policy development:

- Stage 1      Setting out objectives and identifying options.
- Stage 2      Determining the best option and developing a framework for implementation including detailed policy design.
- Stage 3      Drafting legislation to effect the proposed change.
- Stage 4      Implementing and monitoring the change.
- Stage 5      Reviewing and evaluating the change.

7.2 This consultation is taking place during stages 1 and 2 of the process. The purpose of the consultation is to seek views on some proposals for reform and any suitable possible alternatives in order to determine the best design option.

### How to respond

7.3 A summary of the questions in this consultation is included at chapter 6.

7.4 Responses should be sent by Friday 19 September 2014, by e-mail to:

[Charitypolicy.taxteam@hmrc.gsi.gov.uk](mailto:Charitypolicy.taxteam@hmrc.gsi.gov.uk)

or by post to:

Adapted Motor Vehicles Consultation,  
Room G66,  
100 Parliament Street,  
London,  
SW1A 2BQ.

Telephone enquiries 03000 518538 or 03000 585127

7.5 When responding please say if you are a business, charity, individual or representative body. In the case of representative bodies, please provide information on the number and nature of people or organisations you represent.

### Confidentiality

7.6 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000

(FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

- 7.7 If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Revenue and Customs (HMRC).
- 7.8 HMRC will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

### Consultation Principles

- 7.9 This consultation is being run in accordance with the Government's Consultation Principles.
- 7.10 The Consultation Principles are available on the Cabinet Office website:

<http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance>

If you have any comments or complaints about the consultation process please contact:

Oliver Toop,  
Consultation Co-ordinator,  
Budget Team,  
HM Revenue & Customs,  
100 Parliament Street,  
London,  
SW1A 2BQ.

Email: [hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk](mailto:hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk)

Please do not send responses to the consultation to this address.

# Annex A: Relevant (current) Government Legislation

The relevant legislation concerning the VAT relief for adapted motor vehicles is the Value Added Tax Act 1994, Schedule 8, Group 12, Item No. 2A and Notes (5) and (5L).

Item No. 2A. The supply of a qualifying motor vehicle-

- (a) to a handicapped person-
  - (i) who usually uses a wheelchair, or
  - (ii) who is usually carried on a stretcher, for domestic or his personal use; or
- (b) to a charity for making available to such a handicapped person by sale or otherwise, for domestic or his personal use.

Note (5) The supplies described in items 1, 2 and 2A include supplies of services of letting on hire of the goods respectively comprised in those items.

Note (5L) A “**qualifying motor vehicle**” for the purposes of item 2A is a motor vehicle (other than a motor vehicle capable of carrying more than 12 persons including the driver)-

- (a) that is designed or substantially and permanently adapted to enable a handicapped person-
  - (i) who usually uses a wheelchair, or
  - (ii) who is usually carried on a stretcher,to enter, and drive or be otherwise carried in the motor vehicle; or
- (b) that by reason of its design, or being substantially and permanently adapted, includes features whose design is such that their sole purpose is to allow a wheelchair used by a handicapped person to be carried in or on the motor vehicle.

The relevant legislation concerning the VAT relief for adapted boats is the Value Added Tax Act 1994, Schedule 8, Group 12, Item No. 2(i) and Note (5).

Item No. 2 The supply to a handicapped person for domestic or his personal use, or to a charity for making available to handicapped persons by sale or otherwise, for domestic or their personal use, of-

(i) boats designed or substantially and permanently adapted for use by handicapped persons.

Note (5) The supplies described in items 1, 2 and 2A include supplies of services of letting on hire of the goods respectively comprised in those items.

**Note**

The terms 'handicapped' and 'invalid' are widely used in legislation. It is recognised that these terms are outdated and that they can be considered offensive, so they are only used in this document when quoting the legislation.