BRIEFING - JUNE 2024

Electrifying the UK's corporate market

How the UK's corporate channel performs on BEVs, PHEVs and SUVs

Summary

The UK's approach to supporting corporate car electrification is showing signs of success, with the corporate channel, particularly the leasing segment, playing a crucial role in driving battery electric vehicle (BEV) sales forward. Indeed, 22% of all new corporate car registrations in the UK were electric in 2023. However, to remain successful, policy needs to provide more long-term certainty on ongoing support for BEVs and ensure that environmentally damaging choices are tackled, not incentivised - i.e. by regrading tax rates on plug-in hybrids (PHEVs) and SUVs.

KEY FINDINGS

UK LEASING SECTOR BUCKING THE EUROPEAN TREND ON BEVs

40% of new cars in the UK's leasing segment were BEVs in 2023, the highest recorded in Europe

NOT ALL SEGMENTS ARE PULLING THEIR WEIGHT

True fleet & rental segments are well below the European average on BEV uptake at 13% and 3% respectively

"LEADERS" ON FAKE ELECTRIC CARS

3/4 of all new PHEVs registered in 2023 were in the corporate channel, with the leasing segment largely responsible for this trend

DRIVING THE EXPENSIVE SUV TREND

The UK is the corporate SUV capital of Europe, with SUVs making up 62% of new car registrations in 2023, compared to 57% among private

The UK's company car taxation regime, benefit-in-kind (BiK) is one of most progressive in Europe and is enabling corporate fleets, particularly among the leasing segment, to switch to BEVs faster. However, it is also making PHEVs an attractive proposition for corporate fleets too, with tax rates on these vehicles not reflecting their real world emissions.

With the UK's Zero Emission Vehicle mandate taking effect from the start of 2024, setting 22% ZEV sales targets for carmakers this year, moving up to over half of car sales in 2028, the corporate channel will need to continue to play a leading role in the BEV market.

Corporate buyers are well positioned to not only benefit from supportive tax rates, but will also help more quickly feed the second hand market, where most people buy their cars, with more affordable BEVs for consumers and replace fossil fuel miles more effectively as company car drivers tend to be higher mileage drivers than the average.

The new Government should not think it's "job done" on corporate BEVs with the ZEV mandate now in force and BiK rates set out until 2027/28.

The Government should:

1. **Continue supporting corporate electrification through BiK.**
2. **Regrade tax rates for corporate PHEVs.**
3. **Future-proof BiK to encourage more efficient, smaller BEVs from 2030.**
4. **Explore further policy changes to support wider corporate channel electrification.**
5. **Implement measures to provide confidence to all car buyers to switch to BEVs.**

1. Why the corporate channel is so important

The UK's corporate channel is on an upwards trajectory in more ways than one. In 2023, 57% of new cars registered in the UK were corporate compared to 49% in 2022, bouncing back to its highest level in at least eight years. While this is below the average for the EU (60%), it shows how significant a role the corporate channel plays in the overall new car market in the UK.

From the perspective of the transition to battery electric vehicles (BEVs), this is significant in several key ways.

1. The **corporate channel is responsible for a disproportionately high share of emissions** compared to private cars, largely due to UK corporate cars driving 2.5 times the annual distance on average compared to private cars.[1]

2. Corporate cars tend to have a shorter ownership period (3-5 years) meaning **there is a high turnover of vehicles feeding the second hand market**, where the majority of drivers purchase their cars. The faster the corporate channel switches to BEVs, the faster the used market is supplied with cheaper BEVs

3. Companies are **well placed to both absorb the higher upfront costs of BEVs** and benefit from their cost savings as a result of their higher mileage.

Definitions of corporate segments

Leasing & long-term rental (LTR): Registrations made by leasing companies. They purchase cars from carmakers and lease them to companies who use them for company cars or other business activities. This will include cars from salary sacrifice schemes.

True fleets: Registrations mainly by businesses buying and owning their own vehicles, as opposed to leasing them.

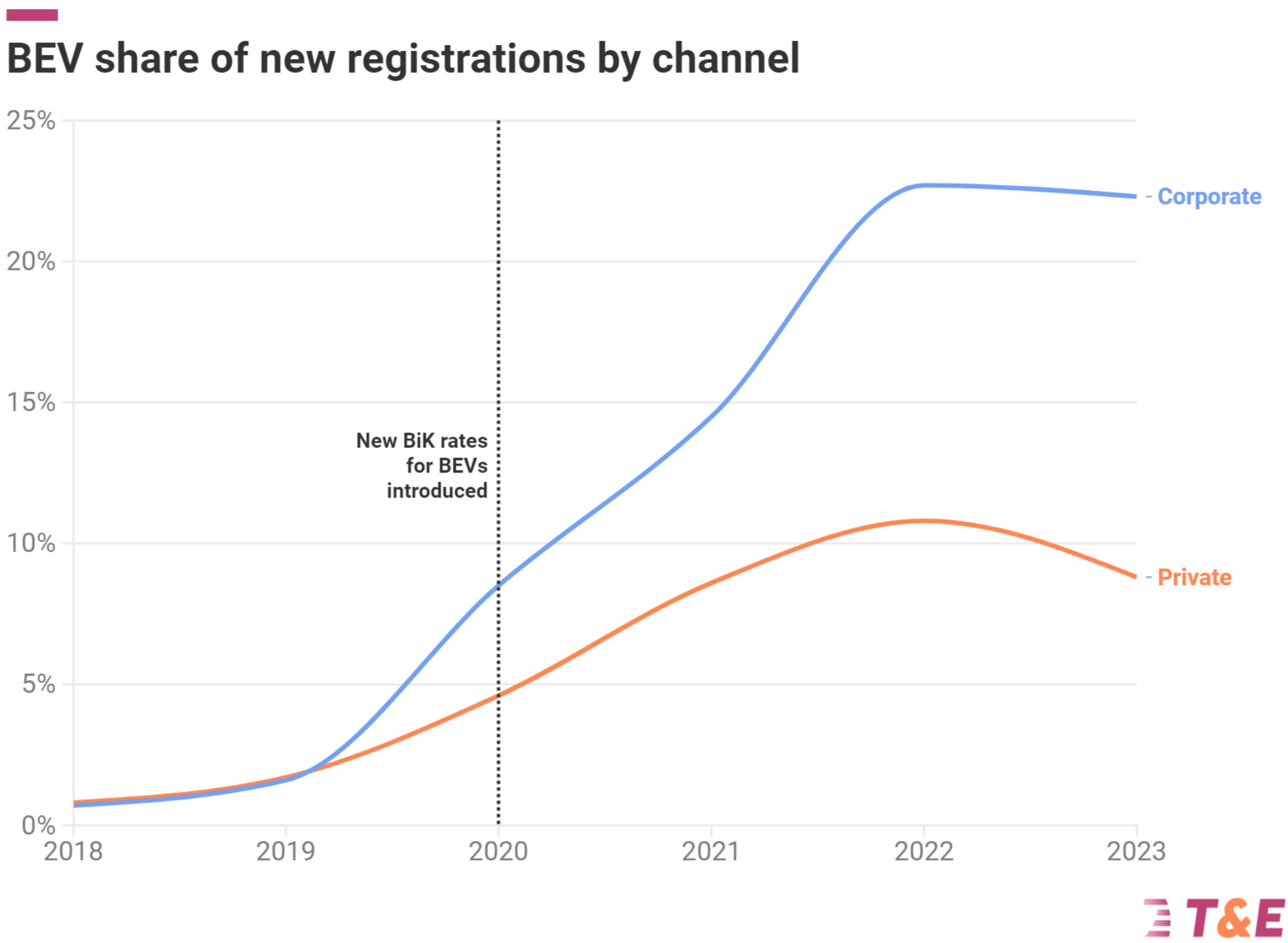
[1] Private cars drive 11,748km on average annually, while corporate cars drive 29,612km on average annually. Department for Transport. (2020). Vehicle mileage and occupancy. Retrieved from: https://www.gov.uk/government/statistical-data-sets/nts09-vehicle-mileage-and-occupancy

Dealer & manufacturer: Registrations made by carmakers and dealerships (i.e. dealership cars to be sold, showroom cars or cars for their own employees).

Rent-a-Car (RAC): Registrations made by rental companies - generally short term rentals (e.g. Hertz, Enterprise).

2. UK company car policy is helping the leasing sector go faster

The corporate market is playing a significant role in supporting the UK's overall BEV market, making up over 75% of all new BEVs last year. The corporate channel's BEV sales have been on an upwards trajectory in the UK since 2020 and while the corporate BEV share of registrations stayed flat from 2022 to 2023, reflecting an overall slowdown in the growth of BEV share in the UK's overall market, corporate BEV registration volumes were up 34%.



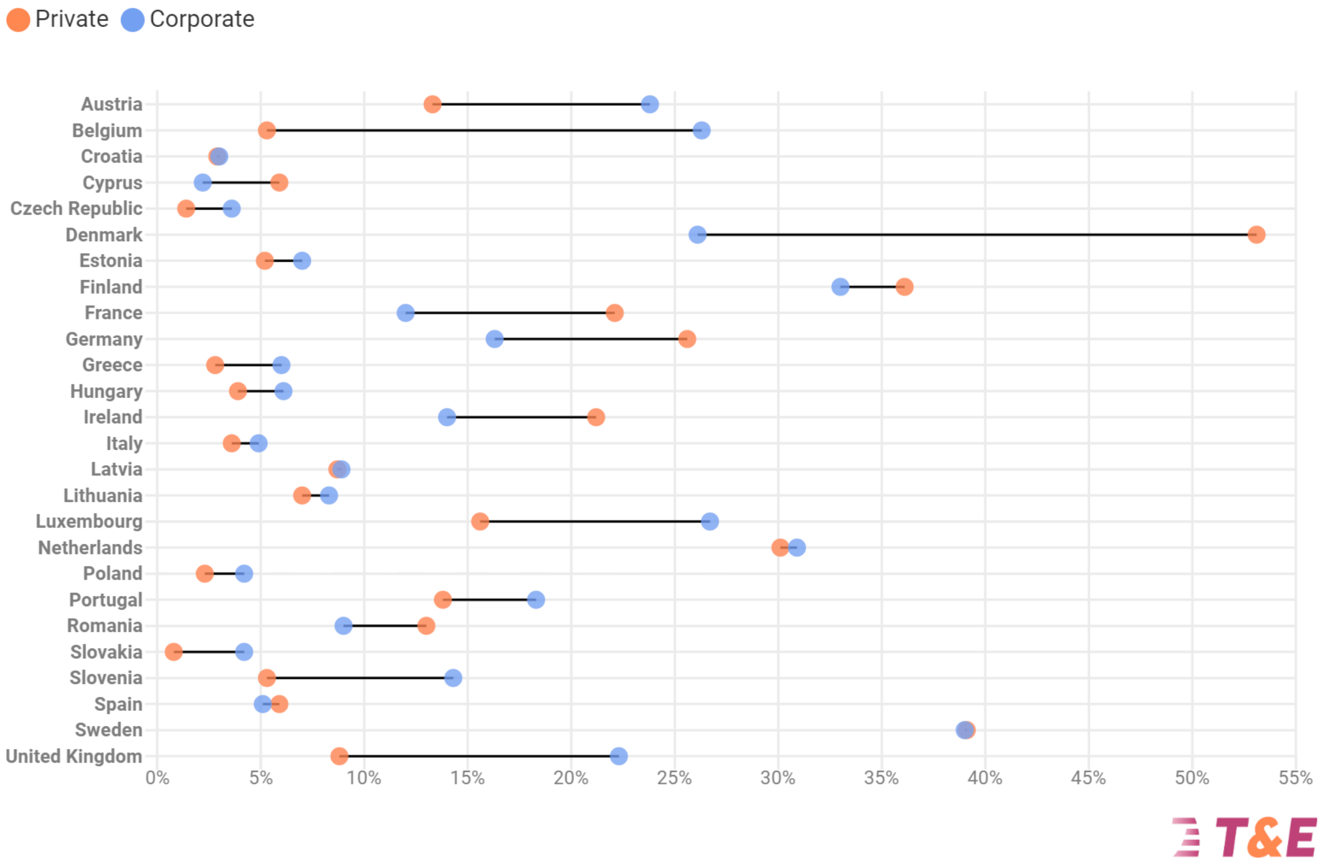
When comparing across the EU+UK, the UK ranks 8th for corporate BEV share and 4th in western Europe behind the Netherlands, Luxembourg and Belgium, but significantly ahead of other major car markets such as France and Germany.

Company car drivers are seeing the "benefit"

The key driver behind the increase in BEVs in the corporate channel from 2020 has been the introduction of new benefit-in-kind rules. These changes brought tax rates for BEVs down to 0%, which have remained low since this time (i.e. 2% in 2024). Tax rates for petrol and diesel cars are much higher, paying as high as 37%, meaning that it becomes financially beneficial for company car drivers to select a BEV.

Comparing the design of the UK's BiK regime to other countries, it's clear it's [one of the most progressive in Europe]() and has had a significant impact on the growth of the BEV market in the UK - more so than other incentives have. These rates are now set out until 2028, providing certainty for the coming three to four years but the Government should ensure longer term certainty that the differential supporting BEV uptake over other powertrains will be maintained indefinitely, but start to look at incentivising smaller, more efficient BEVs and disincentivising PHEVs.

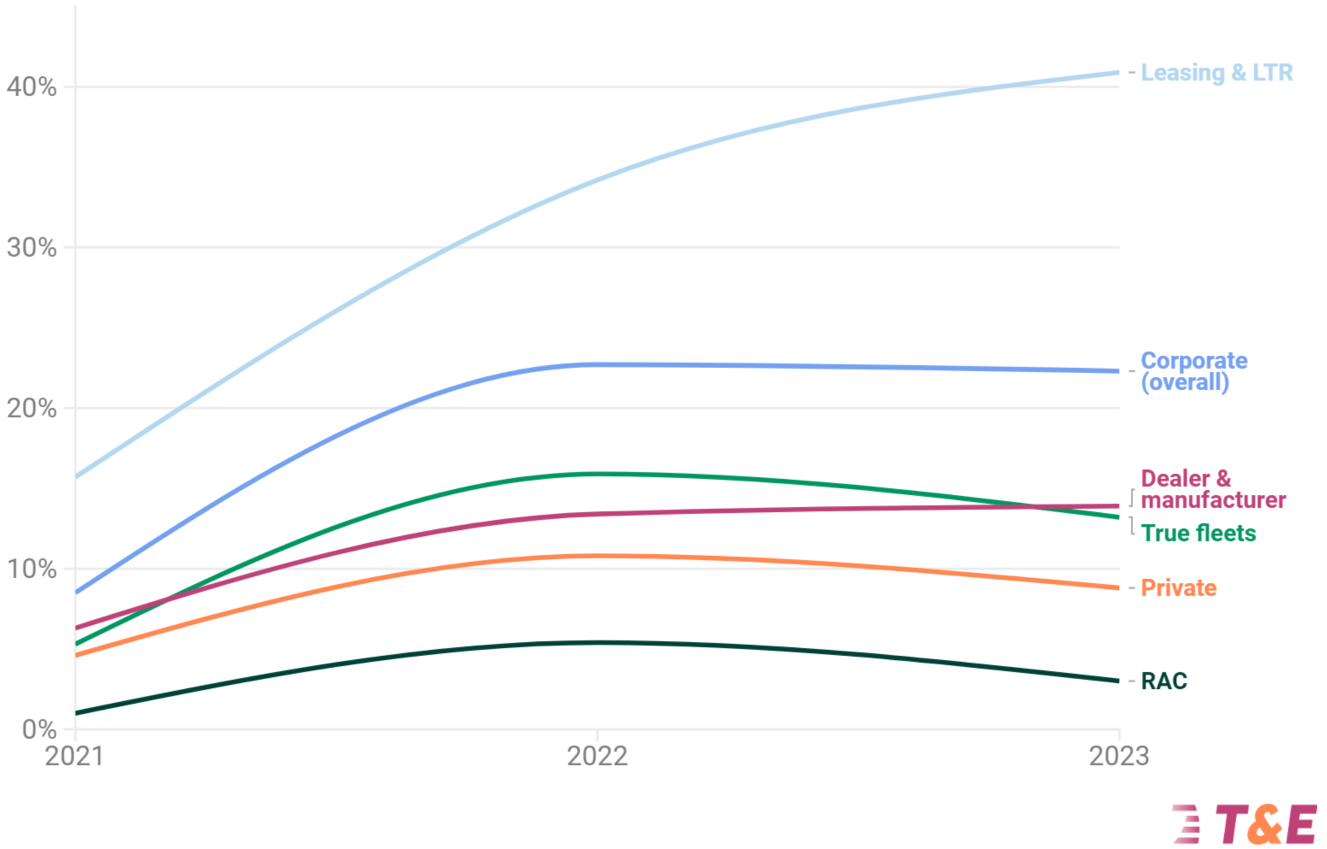
BEV share by channel for EU27+UK in 2023



2.1. The UK's leasing market is bucking the electrification trend in Europe

Overall across Europe, [the leasing segment has been a laggard on electrification](). In the UK, this is not the case. The average for the EU+UK for leasing BEV share is 14.2%, while the UK's leasing segment is at 40.9%. This means the UK's leasing market is Europe's leader, and has shown significant growth in BEV share even from 2022 moving up from 34.2%, bucking the trend for the wider UK market. Even if the leasing segment continues to grow at slightly slower growth rates seen between 2022 and 2023, the segment would reach close to 100% BEV registrations by 2028[2]. The sector should at least aim to reach 100% by 2030.

BEV share of new registrations by channel & segment



However, true fleets are a lot further behind at just 13.2%, below the average for the EU+UK (~18%). This is significant because true fleets are now the biggest corporate segment, making up 25% of the overall new car market, compared to 20% for leasing. The rental segment, which makes up 9% of the overall new car market, is the only corporate segment behind the private channel as a whole, with BEVs only making up 3% of new cars in this segment in 2023.

[2] Based on the growth rate of 19% seen between 2022 and 2023, the leasing segment would reach 97% in 2028. It is noted that 100% BEV share is unlikely by this stage in the absence of regulation and that the growth rate may be slower further down the adoption curve for the leasing sector.

Depending on the use cases, some of these other corporate segments may not be able to benefit from BiK incentives, but the total cost of ownership (TCO) for a corporate BEV should still be beneficial for many of these use cases. It shows that more needs to be done to encourage, or push, these companies to switch faster, e.g. exploring additional tax changes.

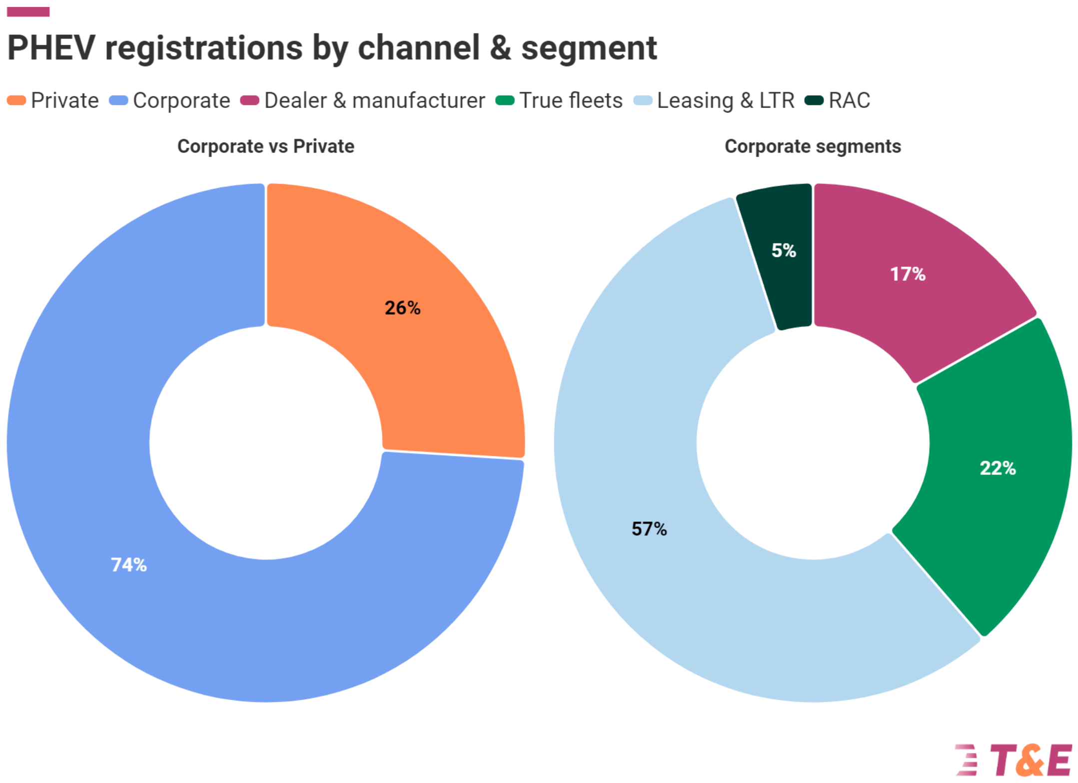
3. Where the UK's corporate channel is leading in the wrong ways

While the UK's corporate channel is making good progress on electrification, largely as a result of the leasing segment, the corporate channel is also driving two detrimental trends for the overall car market: PHEV sales and the growth of SUVs.

3.1. The plug-in hybrid issue in corporate fleets

Plug-in hybrids (PHEVs) are not a viable climate solution. New data from real world emissions testing by the European Commission has confirmed that test cycle emissions testing of PHEVs starkly underestimates their real world emissions by around 3.5 times, compared to around 20% for petrol and diesel cars. This is largely due to PHEV drivers not plugging the car in and using the battery as often as estimated, with ICCT research highlighting that this issue is worse among company car drivers - the real world electric driving share for corporate PHEVs is 11-15% compared to 45-49% for private.

It's for this reason that disproportionate sales of PHEVs into the corporate channel is a cause for concern in the UK. Nearly three quarters of new PHEVs in the UK were registered in the corporate channel, with the leasing segment in particular being a primary driver of this trend.



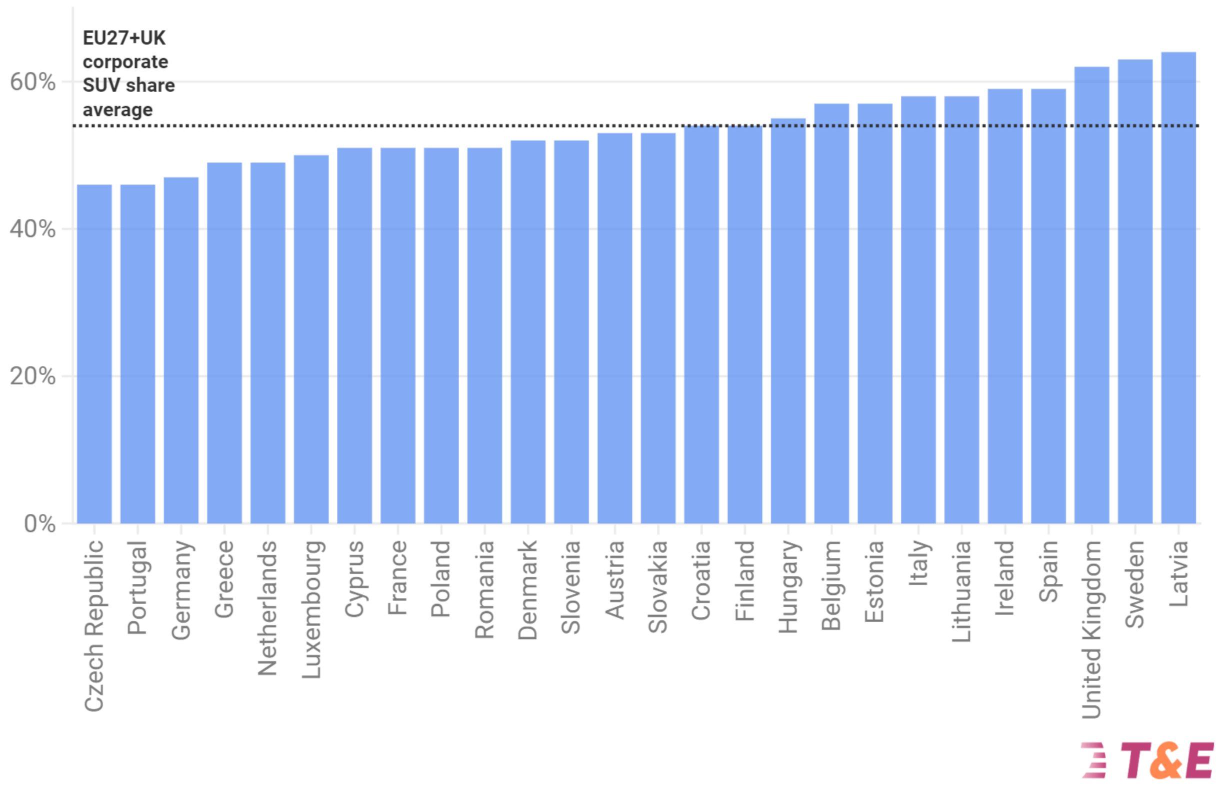
While the UK's BiK regime has been a significant driver of BEV uptake in the UK's corporate channel, particularly in the leasing segment, it has also supported higher levels of PHEV sales as tax rates on these vehicles are relatively low. For example, [2024/25 BiK rates] for PHEVs range between 2-14%, while BEVs are 2%, standard hybrids between 15-26% and internal combustion engine (ICE) cars between 26-37%. The Government should regrade taxation on PHEVs, particularly in the BiK regime, to account for the higher real world emissions.

3.2. The corporate SUV capital of western Europe

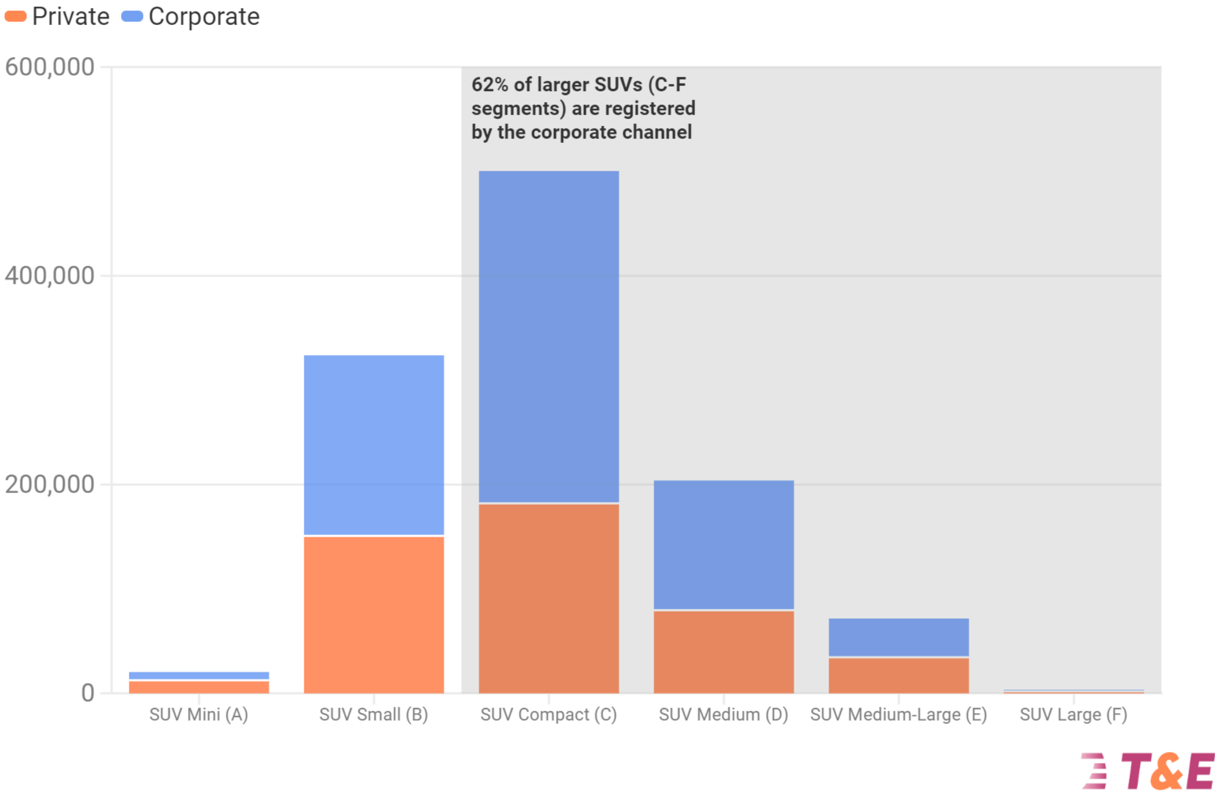
SUV sales in the UK are booming. Nearly 60% of all new cars sold in 2023 were SUVs, up from 50% just two years previously. This is a cause for concern, most notably the environmental, safety and space implications that an increased proportion of these vehicles bring.

The UK corporate market is a disproportionate driver behind this trend. 62% of all new corporate cars in 2023 were SUVs, compared to 57% in the private channel. This high corporate SUV share puts the UK among the highest in the EU+UK, behind only Latvia and Sweden, making the UK the SUV capital of western Europe.

2023 corporate channel SUV share - EU27+UK



UK SUV registrations by channel



The corporate channel is also responsible for 62% of all larger SUV segments (C-F), although the private channel has a higher share of D-F segment SUVs for internal combustion engine cars.

The wider implication of this trend is that the corporate market, while generally moving faster on electrification, is largely feeding more premium vehicles into the second hand market. Despite second hand BEV prices dropping significantly and demand increasing in recent months, the majority of BEVs available on the used market are still well above £15,000, well above what many second hand car buyers are looking for. The corporate channel made up an enormous 78% of BEV SUVs registered in 2023, disproportionately high compared to the 70% of the BEV market the corporate channel represented.

The UK Government should address this issue by ensuring purchasers of new SUVs are paying their fair share in taxation through vehicle excise duty, and explore ways to future proof BiK to encourage company car drivers to choose smaller, more efficient BEVs rather than larger SUVs. With the corporate channel being a crucial feeder to the second hand market, it's important that the cars coming into this channel in the first place also fit the needs of used car buyers, not just the company car drivers that can benefit from big tax savings regardless of the size of the car.

4. Boosting private BEV demand is critical for the whole market

While the focus of this briefing is on the corporate channel, it's important to not just look at the corporate channel in isolation from the wider car market.

The strength in demand for BEVs among private individuals has a knock-on effect on the values of BEVs, particularly the residual values (RVs) for used BEVs which play a big part in the way in which leasing companies set monthly lease prices. BEV retail RVs in the UK are down by 1.4 percentage points in the last 3 months,[3] but this is at a much slower pace of decline than it was during the first half of 2023 which may indicate signs of used values starting to stabilise with used BEV sales up by 66% year-on-year.

Nevertheless, it is crucial that the Government implements the necessary measures to support private consumers and boost demand for new and used BEVs, to provide a positive knock-on effect for the wider market. Among these measures should be:

1. Investing in a public information campaign on BEVs providing the public with objective and key information they need to know to help them make an informed decision about switching to a BEV.
2. Addressing regional inequalities in the UK's charging network, by providing more support to local authorities and removing barriers for chargepoint operators to install chargers.
3. Introducing a "consumer guarantee" on BEVs packaging up existing measures, such as the 8-year warranty on new BEVs and 99% reliability target for public chargers, alongside new measures, such as standardised battery health information and reskilling the maintenance and repair sector.
4. Reintroducing the home charger grant for used BEV buyers to alleviate an additional cost burden for people, at relatively low cost to the Government.

5. Recommendations

The UK's corporate channel is proving to be crucial for the UK's overall BEV market - while this is set to continue in the coming years as the UK's ZEV mandate targets ramp up, the Government has a role to play in ensuring fleets can continue to transition with confidence and that *all* segments of the corporate channel are moving swiftly towards a BEV future.

1 **Continue supporting corporate electrification through taxation**: The Government should act to ensure longer term certainty to BiK rates beyond 2027/28 to ensure a strong differential between the tax rates for BEVs and other powertrains are maintained indefinitely.

[3] Autovista Residual Value Intelligence Tool, accessed July 2024

2 **Regrade tax on corporate PHEVs:** To address the disproportionately high numbers of PHEV entering the corporate channel, the Government should regrade BiK rates on PHEVs after 2027/28 to more appropriately reflect their real world emissions.

3 **Future-proofing BiK to encourage more efficient, smaller BEVs from 2030:** While a strong tax differential to other powertrains must be maintained, BiK cannot remain super low for all BEVs forever. The Government should use the opportunity of needing to provide clarity on post-2028 BiK rates to future-proof BiK in the long term by consulting on alternative ways to tax BEV company cars, with a preference to phase in BiK rates based on the efficiency of the battery and/or size of the car.

4 **Explore further policy changes to support wider corporate channel electrification:** The Government could explore further avenues to support wider corporate segments move faster on BEVs. This could include following Belgium's approach to depreciation write-offs that allows only BEVs to benefit from 2026 and/or increasing vehicle excise duty on corporate ICE cars.

5 **Provide confidence to all car buyers to switch to BEVs:** The Government should develop a series of policies to boost confidence and demand for BEVs among private car buyers. Among these should be a public information campaign, removing inequalities in the public charging network, a "consumer guarantee" on BEVs, standardised battery health information and reintroducing the home charger grant for used BEV buyers. These policies would help to strengthen demand among private car buyers, including in the used market, which would help to provide more certainty to residual values.

Further information

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