Rt Hon Frank Field MP
Chair, Work and Pensions Committee
Rt Hon Nicky Morgan MP
Chair, Treasury Committee
House of Commons
Committee Office
London
SW1A 0AA

January 2019

Dear Frank and Nicky,

Thank you for your letter of 21 January regarding the Treasury Select Committee’s and Work and Pension Committee’s joint enquiry into the financial arrangements of the Motability Scheme. I should begin by thanking the Committees for their work carried out as part of the joint inquiry, helping to ensure an excellent and affordable service for disabled people.

In your letter, you asked HM Treasury to confirm certain figures regarding VAT and Insurance Premium Tax (IPT) published by the National Audit Office (NAO) in their recent report concerning the Motability Scheme. You also enquired as to when HM Treasury last reviewed the tax treatment of the scheme.

As you will be aware, the Government makes available several VAT zero rates for the purchase of certain goods and services which are for the personal use of disabled people. These reliefs help ensure that disabled people do not have to bear the cost of VAT on many goods and services which are specifically designed to help them in their day-to-day lives. Such reliefs include the VAT zero rate for the leasing of vehicles by disabled people who are in receipt of certain disability benefits and an IPT exemption for insurance for such vehicles subject to certain conditions. These reliefs aim to ensure that these lease payments and insurance premiums are not subject to VAT or IPT.

Under current UK VAT law, one of the conditions for the application of these reliefs is that the disability benefit has to be transferred directly to the lessor by the Department for Work and Pensions (DWP). Under regulations set by the DWP, only Motability is currently able to lease cars in this way, as it is the only organisation which can directly receive the mobility payments from DWP.

In your letter, you mention that the NAO estimate of the VAT zero rate and IPT exemption applicable to Motability leases and other services provided to disabled people amounted to £888 million in 2017. I should highlight that this is an independent estimate of the value of the tax relief and as such we cannot confirm these figures directly. I have received confirmation from HMRC that this figure is a reasonable estimate
based on publicly available information. However, it is possible that many of the goods and services provided by Motability, which qualify for the reliefs outlined above, would otherwise be subject to VAT relief under one of the other VAT zero rates for disabled people. These include VAT zero rates for motor vehicles adapted for the carriage of people in a wheelchair, and certain other adapted motor vehicles. Therefore, it is likely that the cost of the zero rate solely for the leasing of vehicles by disabled people is less than the above estimate.

I would like to reassure you that HM Treasury regularly keeps all tax policies under review, and this include VAT zero rates and IPT exemptions with respect to these leasing arrangements. It is important that such zero rates operate effectively in order to help disabled people meet their needs. My officials in HM Treasury are actively discussing this matter with DWP and HMRC.

Thank you for writing to us about this important matter.

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