

# Motoring taxation today and the case for change

Stuart Adam

BVRLA / RAC Foundation roundtable: The future of motoring taxation

3 September 2018

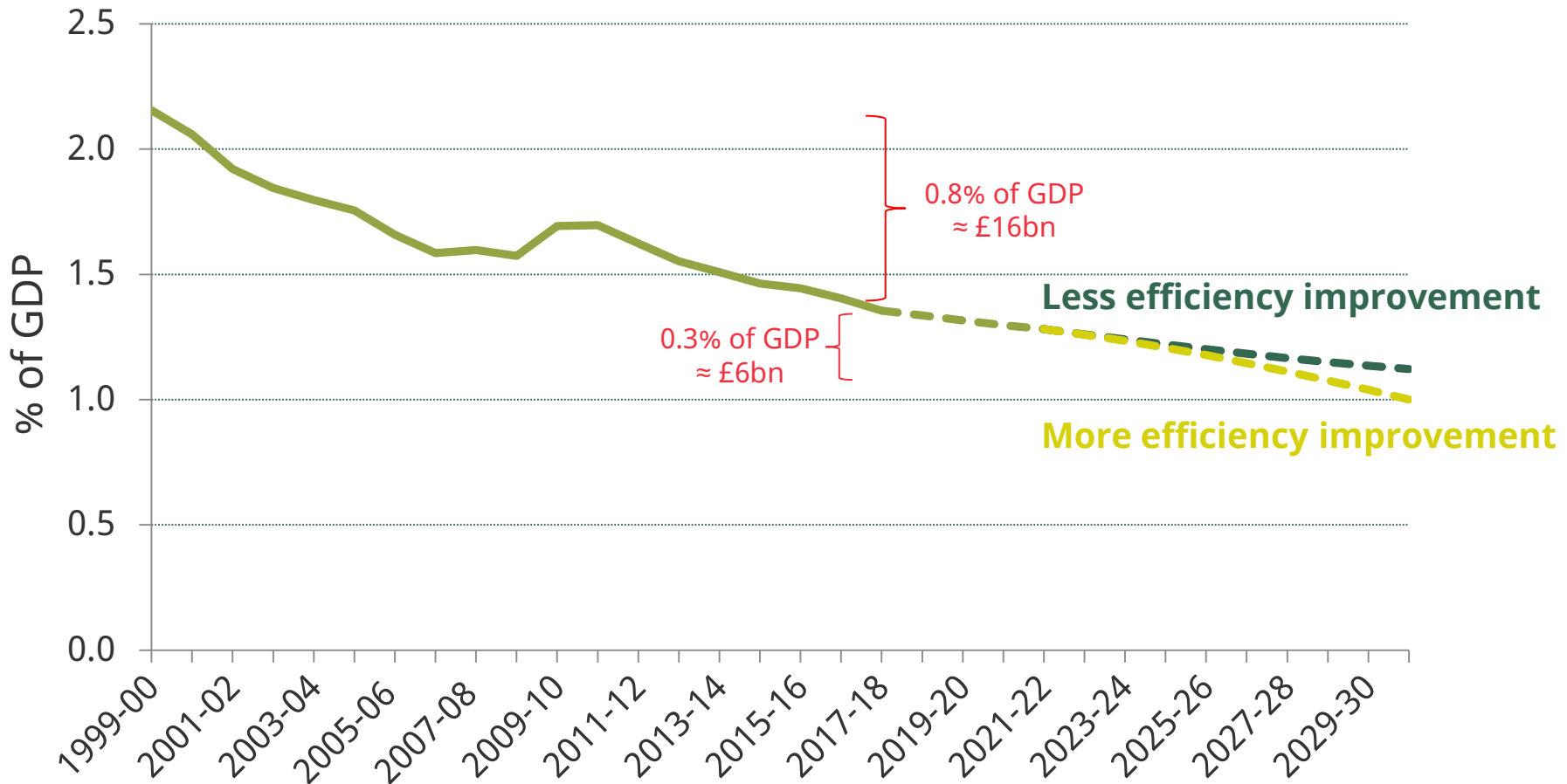
# Motoring taxes as a revenue source, 2016-17

	£ bn	% of revenue	% of GDP
Fuel duties	27.9	3.8%	1.4%
VAT on duties	5.6	0.8%	0.3%
Vehicle excise duty	5.8	0.8%	0.3%
London congestion charge	0.3	<0.1%	<0.1%
<b>Total</b>	<b>39.5</b>	<b>5.4%</b>	<b>2.0%</b>

Sources: OBR *Economic and Fiscal Outlook March 2018*, HMRC Statistics, TFL *Statement of Accounts 2018*, author's calculations

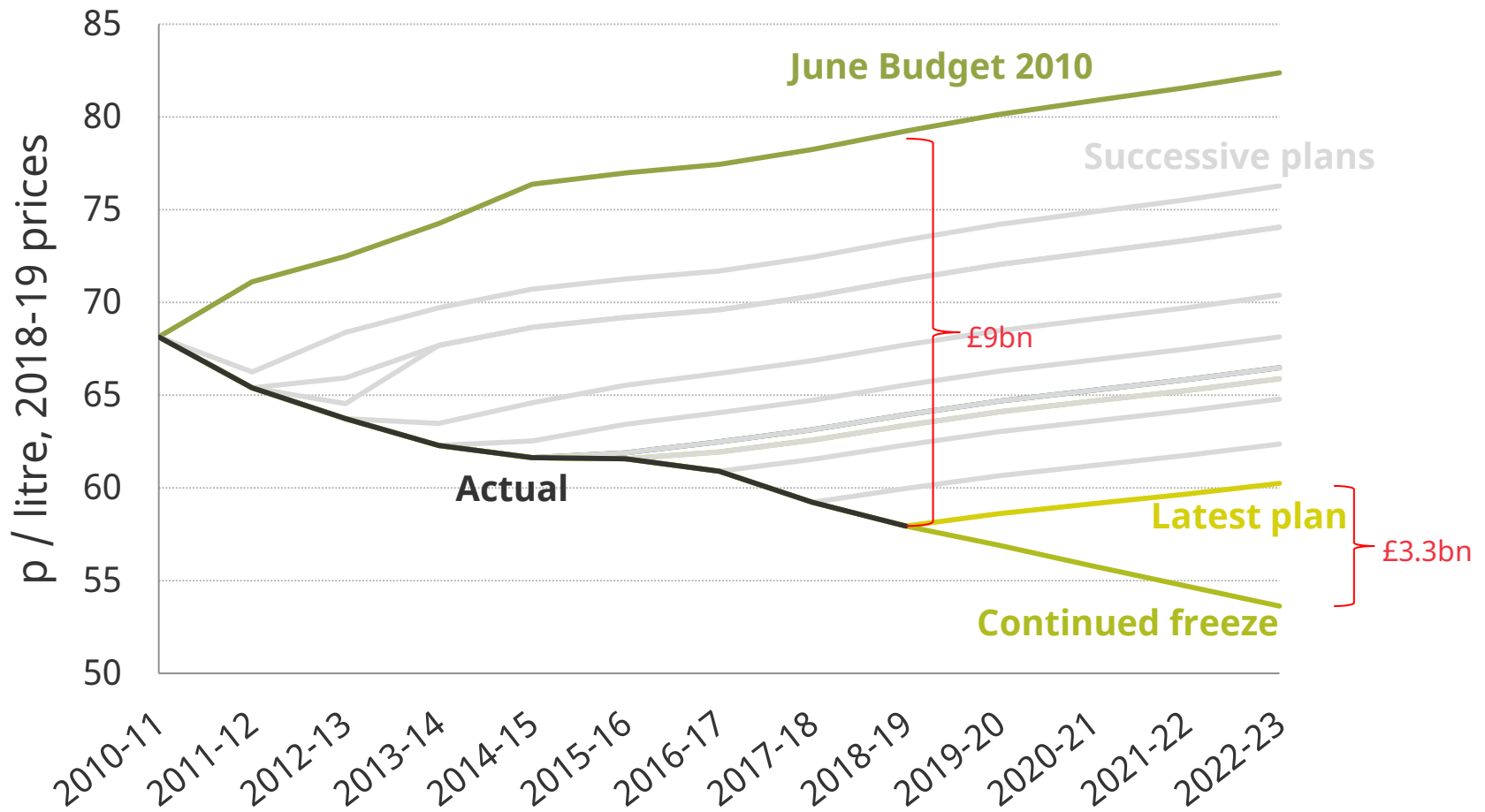
# Fuel duty revenues

OBR forecasts assume annual RPI uprating resumes



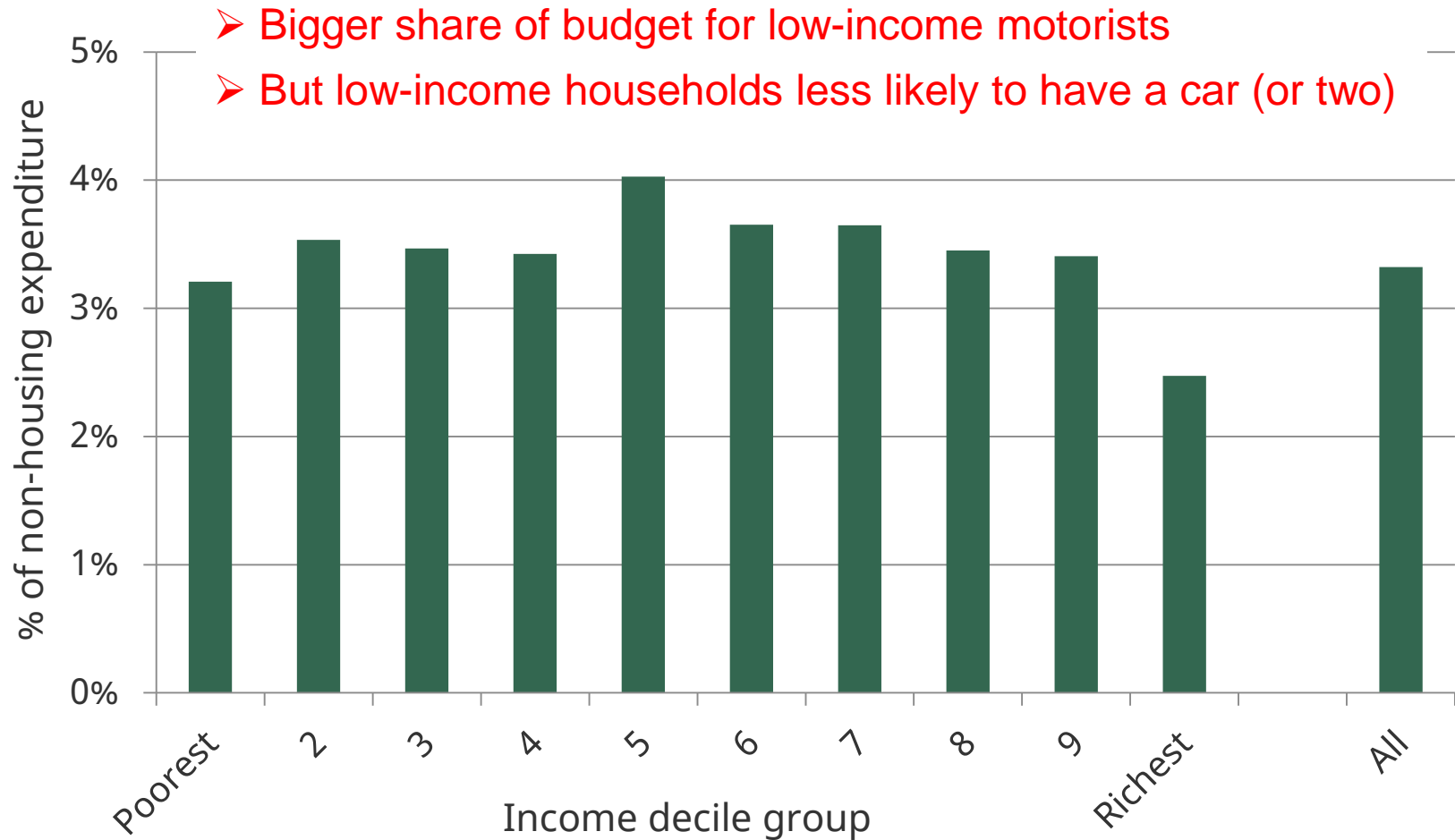
Sources: HMRC Statistics, OBR Public Finances Databank, OBR Fiscal Risks Report 2017, author's calculations

# Fuel duty: plans and reality



Source: IFS calculations using OBR (2018)

# Distributional impact of fuel duty + VAT on duty



Sources: Author's calculations using TAXBEN run on updated data from the 2014 Living Costs and Food Survey

# Why tax motoring (more than other activities)? Institute for Fiscal Studies

## Because motoring causes harm to wider society ('externalities')

- Ideal: make driver face a price that reflects true cost of activity

	Marginal external cost of motoring in 2015, p/km
Congestion	11.3
Accidents	1.7
Greenhouse Gases	0.8
Noise	0.1
Infrastructure	0.1
Local Air Quality	0.1
<b>Total</b>	<b>15.3</b>

Source: Department for Transport *WebTAG Databook June 2018*, Table A5.4.2

# Congestion charging

## **Congestion charging could have big benefits**

- Government estimated potential welfare gains at 1% of GDP

## **In contrast, fuel duties and VED not well targeted**

- But far too high to justify by carbon emissions alone

## **And will get even worse**

- Increased fuel efficiency; shift to electric cars

## **National road pricing should replace much of fuel duties**

## **Politically challenging**

- Though perhaps more palatable as a replacement tax than an extra tax?

## **A premium on acting quickly**

- Radical reform will need time to implement
- Before revenues run out and no quid pro quo for replacement
- Before expectation of tax-free electric motoring embedded

# Vehicle excise duty

## Annual tax on car ownership

## Initial 1<sup>st</sup>-year ('showroom') tax based on CO<sub>2</sub> emissions & fuel type

## Subsequent years' tax depends on emissions for pre-2017 cars only

- Moving to system that's flat-rate with exemption for electric

## Some case for an emissions/fuel-based purchase tax

- People may focus on upfront cost more than annual running cost

## Harder to see case for an annual tax on ownership

- Not well targeted at congestion, emissions or anything else

## But some care is needed

- Taxing new cars but not existing ones encourages people to keep dirty cars on the road
- Taxing 2<sup>nd</sup>-hand trade discourages mutually beneficial transactions
- Perhaps combine purchase tax + scrappage subsidy?



# Company car taxation

## Income tax and NICs levied on provision of company cars & fuel

- Tax rate depends on CO<sub>2</sub> emissions band
- Raised £2.6bn in 2016-17

## We tax company cars & fuel (like other benefits in kind) as part of total income

- So people with the same total remuneration pay the same tax
- And so can't avoid tax by paying people in kind instead of in cash

## Should tax the monetary value of the benefit provided

- No obvious reason that depends on emissions

## Reducing emissions is a different objective, which needs a differently targeted policy

- Why penalise high emissions *more* for company cars than other cars?

# Conclusions

## Revenues declining rapidly

- Fuel duty rates failing to keep pace with inflation
- Greater fuel efficiency; coming shift to electric cars

## Existing taxes poorly targeted at objectives

- Congestion by far the biggest harm from motoring

## We know where we should get to

- Electric cars, taxed mostly on congestion caused when & where driven

## Harder to know how to get there

- Getting over the 'hump' to electric cars
- Transition (technology & infrastructure, taxing new vs old cars,...)
- Politics

## But a premium on starting now