

## IFS Green Budget 2019

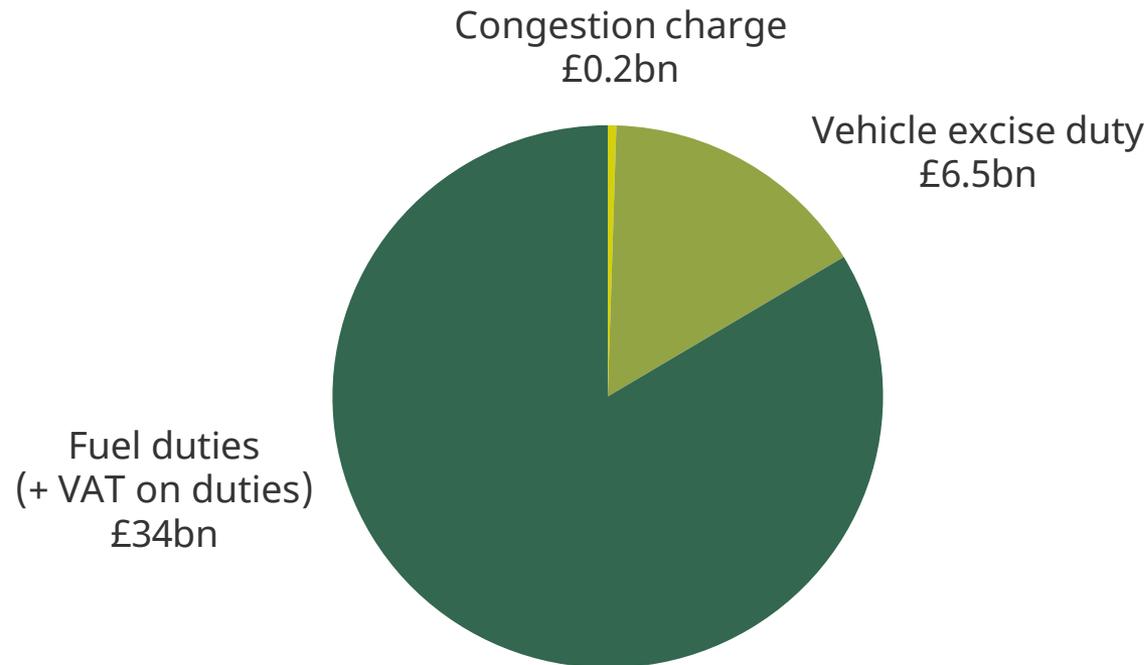
A road map for motoring taxation

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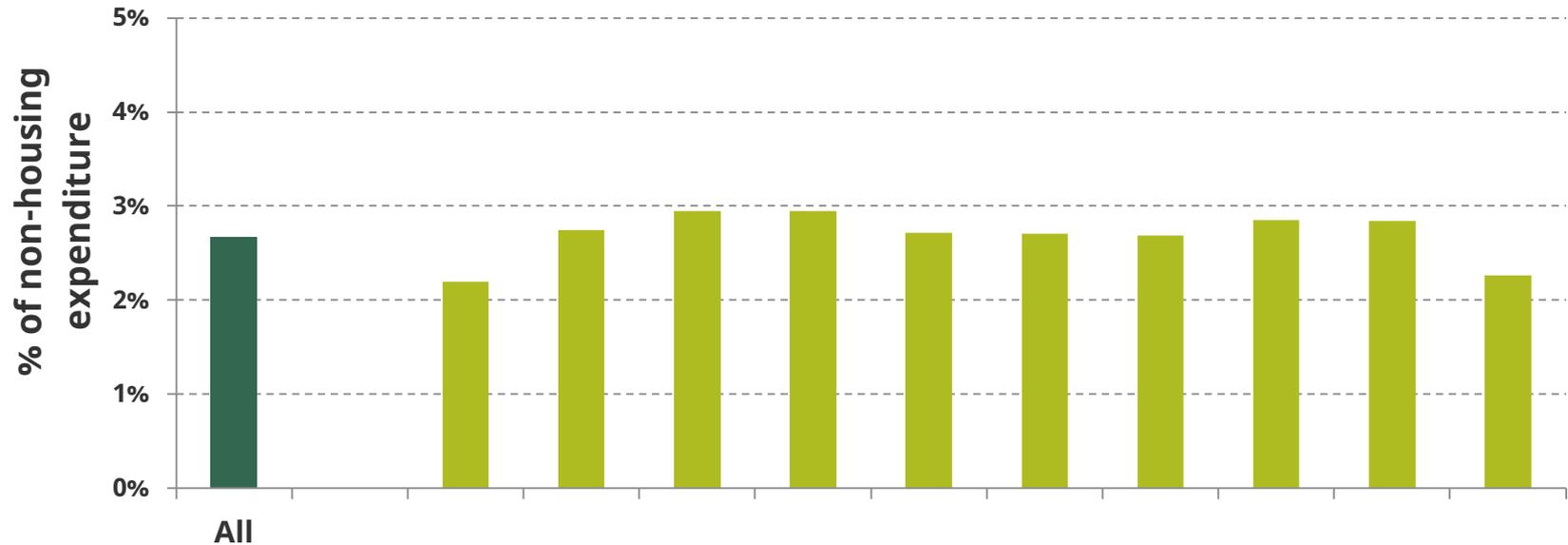
# Motoring taxes as a source of revenue

## Forecast to raise £40 billion in 2019-20

- 5% of total government revenue

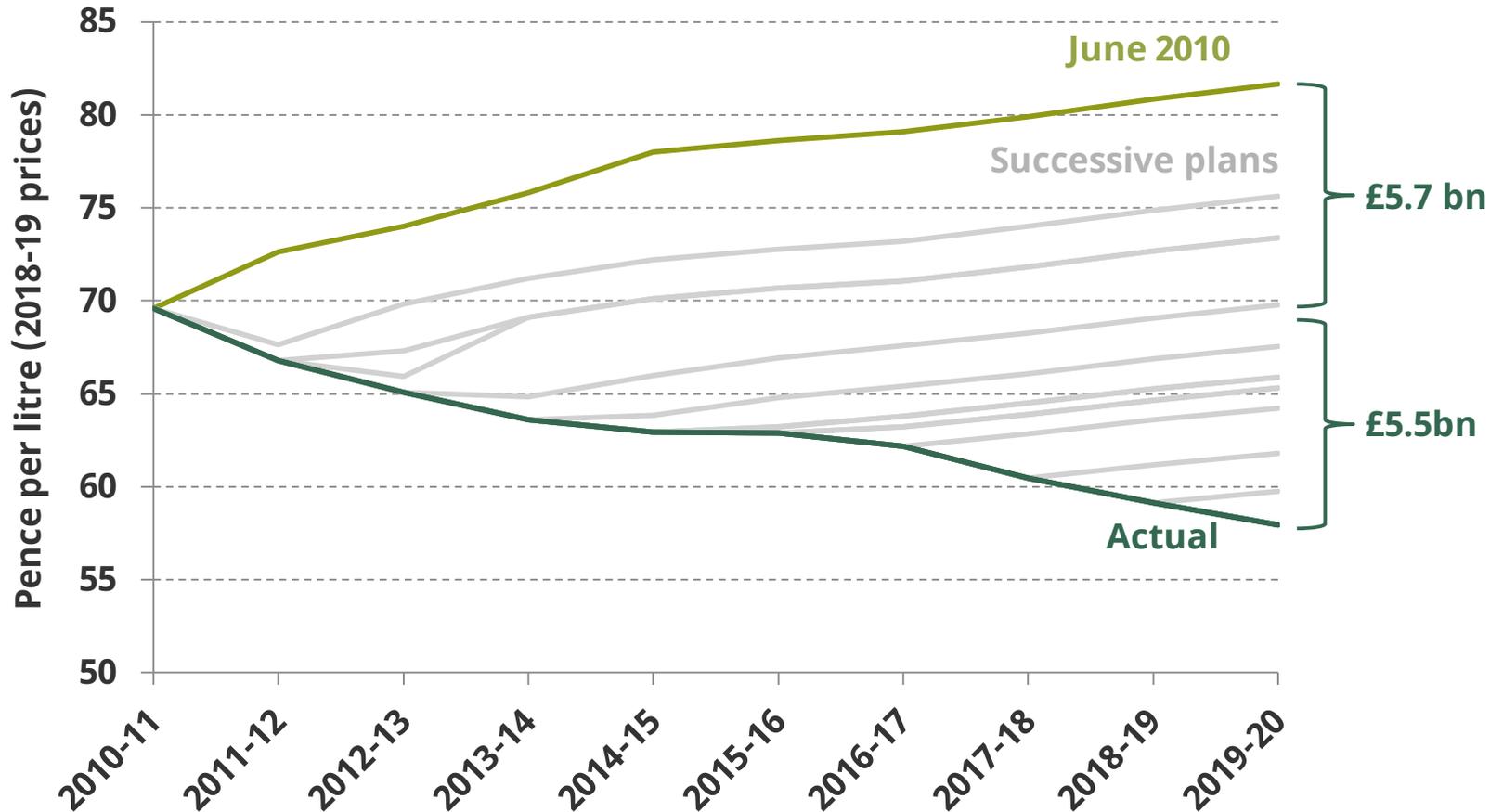


# Household expenditure on fuel taxes

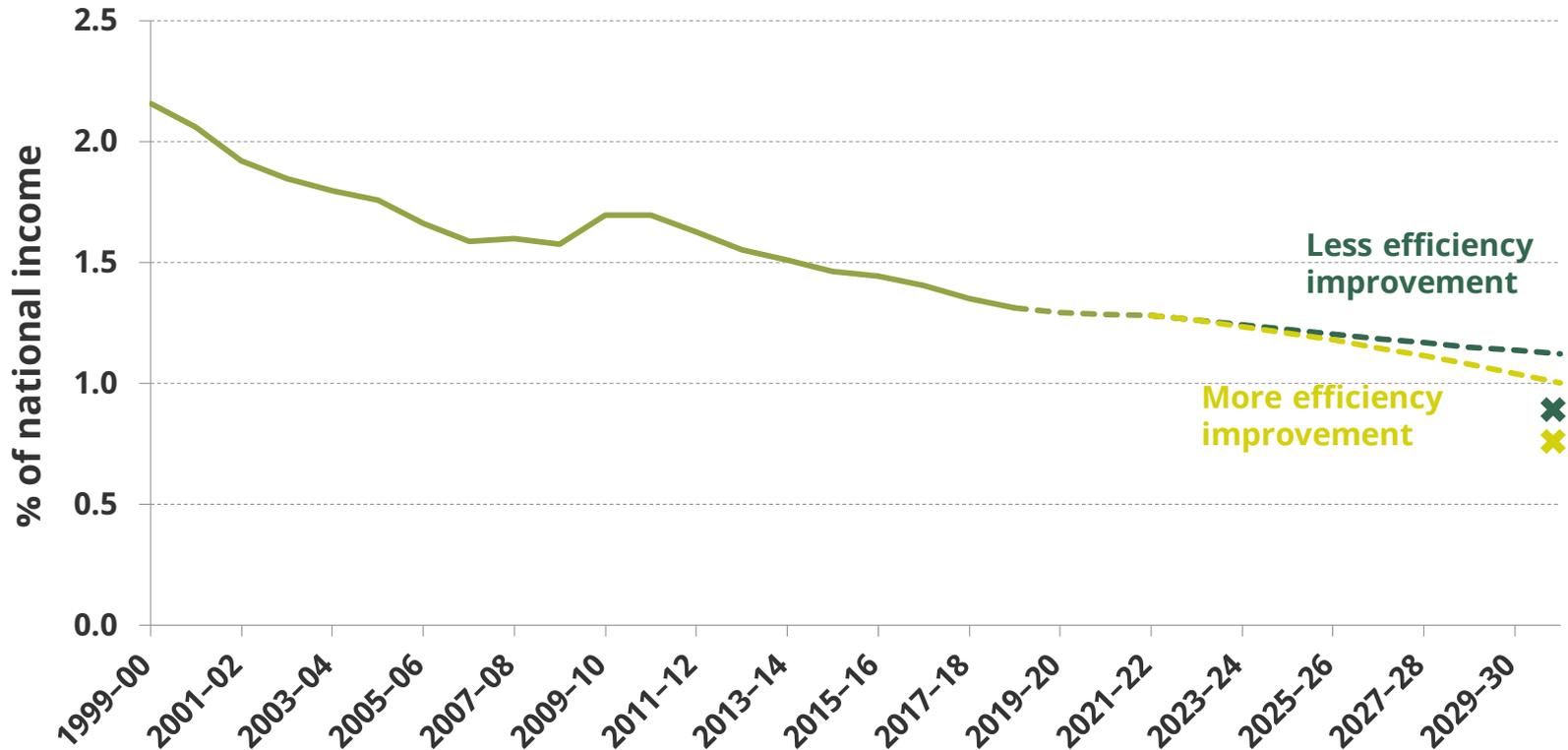


- Fuel taxes do not hit poorer households harder on average
- Almost one in 20 households spend more than 10% of their (non-housing) budget on fuel taxes

# Fuel duties have been frozen in nominal terms for the last 8 years



# Fuel duty revenue has fallen over time

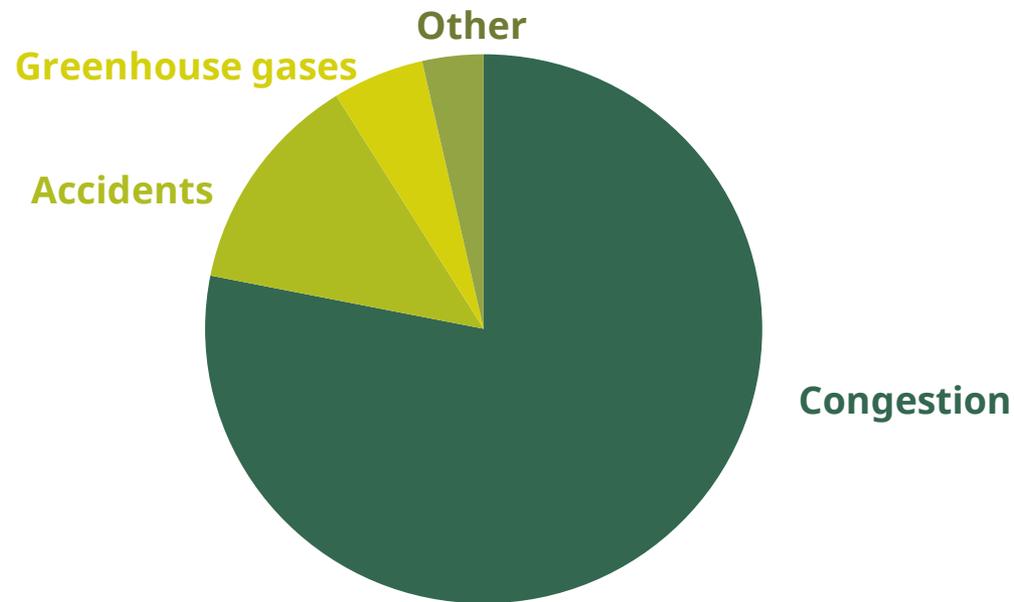


**And will completely disappear in the next few decades**

# This is more than just a fiscal problem

## There are good reasons to tax motoring more than other activities

- Motoring has wider costs to society
- Government estimates: 17p/km on average



Note: Costs in 2019-20 prices

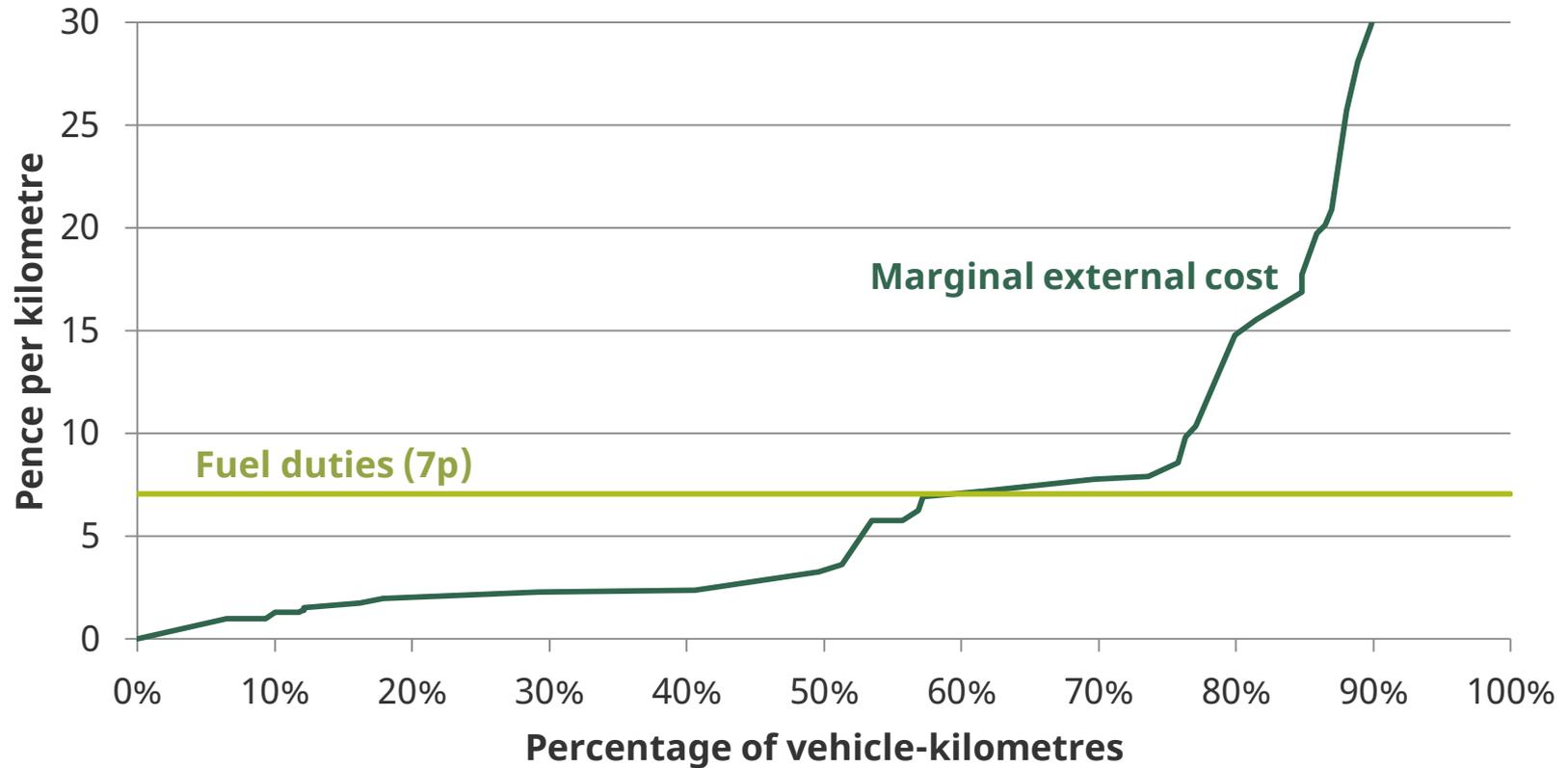
Source: Department for Transport *WebTAG Databook* May 2019, Table A.5.4.2

# This is more than just a fiscal problem

## There are good reasons to tax motoring more than other activities

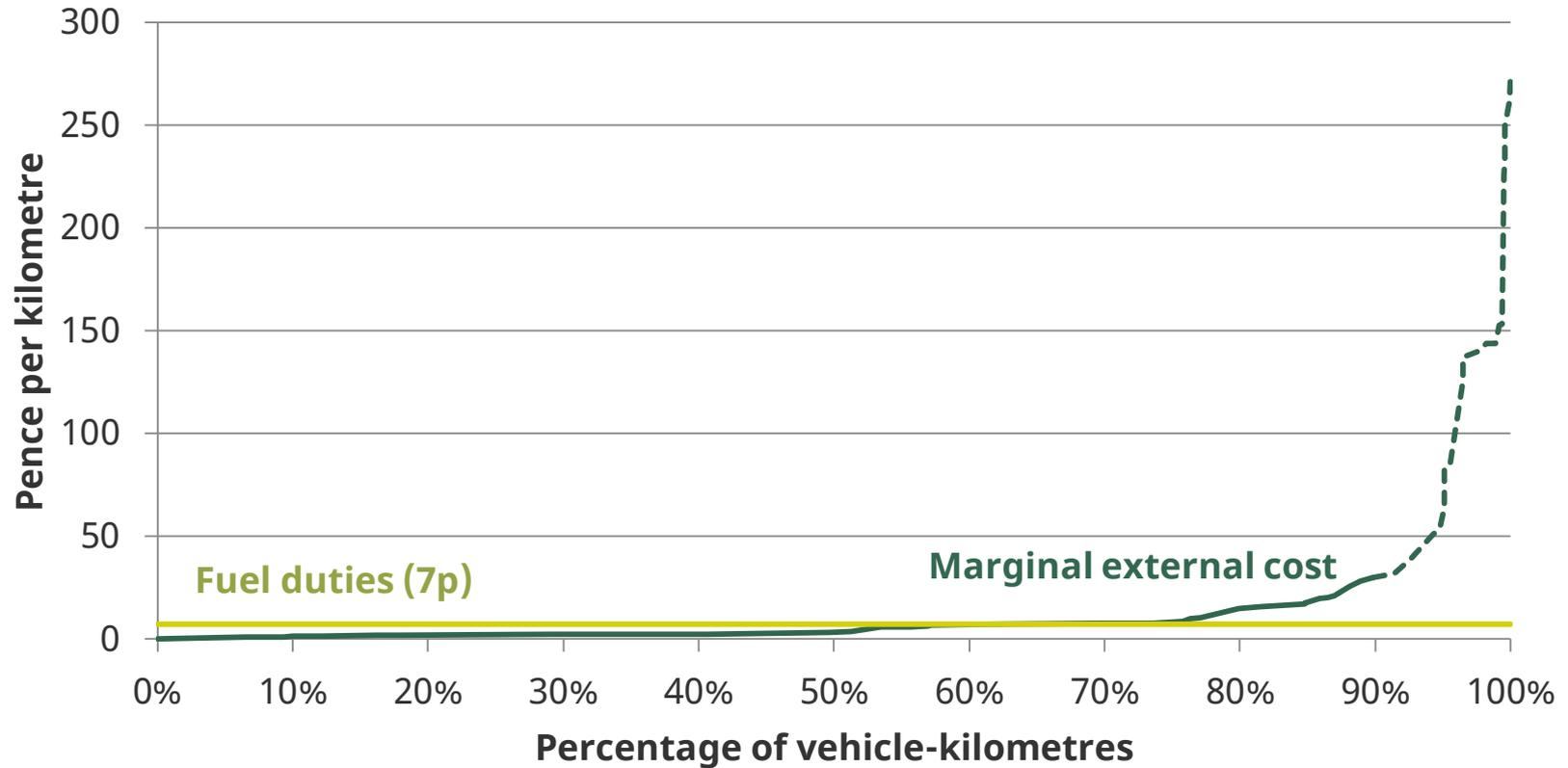
- Motoring has wider costs to society
- Government estimates: 17p/km on average
- Motoring taxes can incorporate these costs into the prices drivers pay so prices reflect the true cost of their activity
- Ideally each kilometre driven would be taxed an amount equal to the social costs it generates
  - Requires taxes to vary as much as the social costs its generates – particularly congestion

# Not all kilometres are equal



Source: Authors' calculations and tables A5.4.1 and A5.4.2 of Department for Transport, WebTAG Databook, May 2019, converted to 2019–20 prices using the GDP deflator.

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# Are current taxes well designed to target the external costs of motoring?

## Fuel duties

- Poorly suited to targeting congestion and other variable costs
- And set too low if targeting all costs
  
- Well suited to targeting emissions
- But set too high if just targeting emissions
  - Average fuel duty: 7p/km
  - Average cost of greenhouse gas and local air pollution: 1.2p/km

# Are current taxes well designed to target the external costs of motoring?

## Vehicle excise duty

- Annual tax levied on every vehicle registered for road use
  - First year charge linked to car's CO<sub>2</sub> emissions band

## Company car taxation

- Income tax and NICs levied on provision of company cars
  - Rate depends on car's CO<sub>2</sub> emissions band

## Fuel duties better targeted at emissions

- Provides strongest incentives for those who drive a lot
- Provides ongoing incentives to drive less

## Tax at point of purchase provides better incentive to buy cleaner cars

# Motoring forward: vision for the long term

## The challenge

- Fuel duties will disappear in the next few decades
- The government could replace this revenue by taxing other activities
- But there are good reasons to want to tax motoring specifically

## A tax per kilometre driven

- Like fuel duties, this provides an incentive to drive less but poorly corrects for other costs
- Could provide a stepping stone to a more nuanced approach

## Road pricing

- Ideal system: road pricing where charges vary by time and location
- London congestion charge move in right direction

# Managing the transition

## Speed is of the essence:

- Easier to bring in new taxes while fuel duties can be reduced in return
- And before expectation of low taxes on electric motoring is ingrained

## Trade-off:

- Long run: tax low-emissions motoring
- Short run: encourage transition to low-emissions motoring

## One solution:

- Bring in new taxes on motoring as soon as possible
- Encourage take-up of cleaner cars in other ways:
  - Temporary subsidies for buying clean new cars or scrapping dirty old ones
  - Provide funding for infrastructure e.g. charging points

# Summary

## **The government must rethink how it taxes motoring**

- Revenue from motoring taxes will disappear in next few decades
- Existing taxes poorly targeted at the social harm driving creates

## **The ideal system**

- Road pricing with charges that vary by time and place

## **Managing the transition**

- Start now
- Use other tools to encourage take-up of cleaner cars

## **The government might take a different view but it needs a plan**

- Long run taxation of motoring
- How to get there