

VEHICLE EXCISE DUTY DISCOUNTS IN RURAL AREAS

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Vehicle excise duty (road tax) is an annual fixed tax on vehicle ownership. From 1985 to 1991, the rate on private vehicles was £100, and it has since been increased in successive Budgets to its current level of £155 for vehicles over 1,100cc. From 1 June 1999, vehicles of 1,100cc and below are liable for a reduction of £55. In response to the recent fuel protests, recent press speculation¹ has suggested that motorists in rural areas could be offered a discount on their vehicle excise duty (VED). One of the frequent objections to the high tax rate on road fuels in the UK is the effect it has on certain groups of the population. The idea behind cutting VED for those living in rural areas is to compensate one of the groups that we might be concerned about.

One question to ask is ‘How rural would an area have to be for its residents to be offered the reduced rate of VED?’. Obviously, the more areas that are included for the discount, the more costly the policy would be for the Chancellor if he chose to implement it. The table below shows the cost of implementing the policy in areas of various population densities. The ‘cumulative cost’ column shows how much it would cost to offer the discount to people living in areas where the population density was less than the given number. For example, to cut VED by £110 on cars above 1,100cc in all areas where the population density was less than five people per hectare would cost around £930 million and would benefit around 25 per cent of the population. To offer everyone a cut of £110 would cost nearly £3 billion.

<i>Population density (people/hectare)</i>	<i>Cumulative cost (£m)</i>	<i>% of households in region</i>	<i>Average number of cars per household</i>	<i>Average gross household income</i>
Under 1	370	10	1.3	£23,000
1 to 4.99	930	15	1.2	£24,000
5 to 9.99	1,180	8	1.1	£21,500
10 to 14.99	1,520	11	1.0	£21,500
15 to 19.99	1,730	7	1.0	£22,500
20 to 24.99	1,950	7	1.0	£23,000
25 to 29.99	2,120	7	0.8	£19,000
30 to 34.99	2,310	7	0.9	£24,000
35 to 39.99	2,440	5	0.8	£20,000
40 to 44.99	2,550	4	0.9	£21,500
45 to 49.99	2,680	5	0.9	£20,000
50 to 59.99	2,760	4	0.7	£18,500
60 to 74.99	2,850	4	0.7	£20,000
75 and over	2,920	4	0.6	£22,000

Cutting VED for those living in rural areas is certainly a cheaper option for the Chancellor than any substantial cut in fuel duty. The reduction in VED in the most rural areas in the table (under one person per hectare) would cost around £370 million, which is similar to the cost of cutting a penny off all fuel taxes (around £400 million). Around 10 per cent of the population live in areas where the population density is less than one person per hectare, so a significant number of people would benefit.

¹ See, for example, <http://www.telegraph.co.uk/et?ac=003625317246346&rtmo=V68wVrVK&atmo=mmmmmmQR&pg=/et/00/10/11/ncars11.html>

As well as being a cheaper option for the Chancellor, cutting VED is unlikely to have much of a harmful effect on the environment. Once VED has been paid, it has no effect on the cost of an additional journey. So reducing VED would not encourage people who already have a car to use it more often. There would be a harmful effect on the environment if the cut in VED encouraged car ownership, leading to an increase in the number of cars on the road. If cutting VED meant that there was a reduction in the tax differential between cars at or below 1100cc and cars above this size, ownership of larger cars (which are often less fuel-efficient) could be encouraged. The other possibility is that the cut in VED could lead to an increase in the age of the vehicle stock. Road tax may make up a significant proportion of the cost of a very old car and so may deter ownership. Reducing the tax might encourage their ownership and, since older vehicles tend to be less environmentally friendly, could lead to an increase in emissions. However, since the reduction would only be offered to a limited number of households, the increase in car ownership and the increase in ownership of older vehicles across the population are likely to be small.

Would the policy help the most vulnerable people who are on low incomes? The table also shows the average number of cars per household in each area. Those living in the least densely populated areas (less than one person per hectare) have, on average, more cars per household than those living in more urban areas. This is not surprising, since people living in rural areas are more likely to need a car, but it does suggest that people living in rural areas are not necessarily those on the lowest incomes. The final column of the table shows average gross household income in each of the population density areas. Households living in the rural areas are not the poorest, on average, and are significantly richer than those living in a number of more densely populated areas. Another point to note is that the reduction in VED will only help those people who live in rural areas who own a car with an engine size greater than 1,100cc. There may be people (the elderly, for example) who do not have a car (or who have a smaller car) but whom we would want to compensate for high fuel taxes. A more general way of doing this would be through an increase in government grants to local authorities in rural areas, which could be used, for example, to cut council tax in those areas.