

Institute for
Fiscal Studies

Indirect taxes and environmental measures

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Alcohol and tobacco taxes

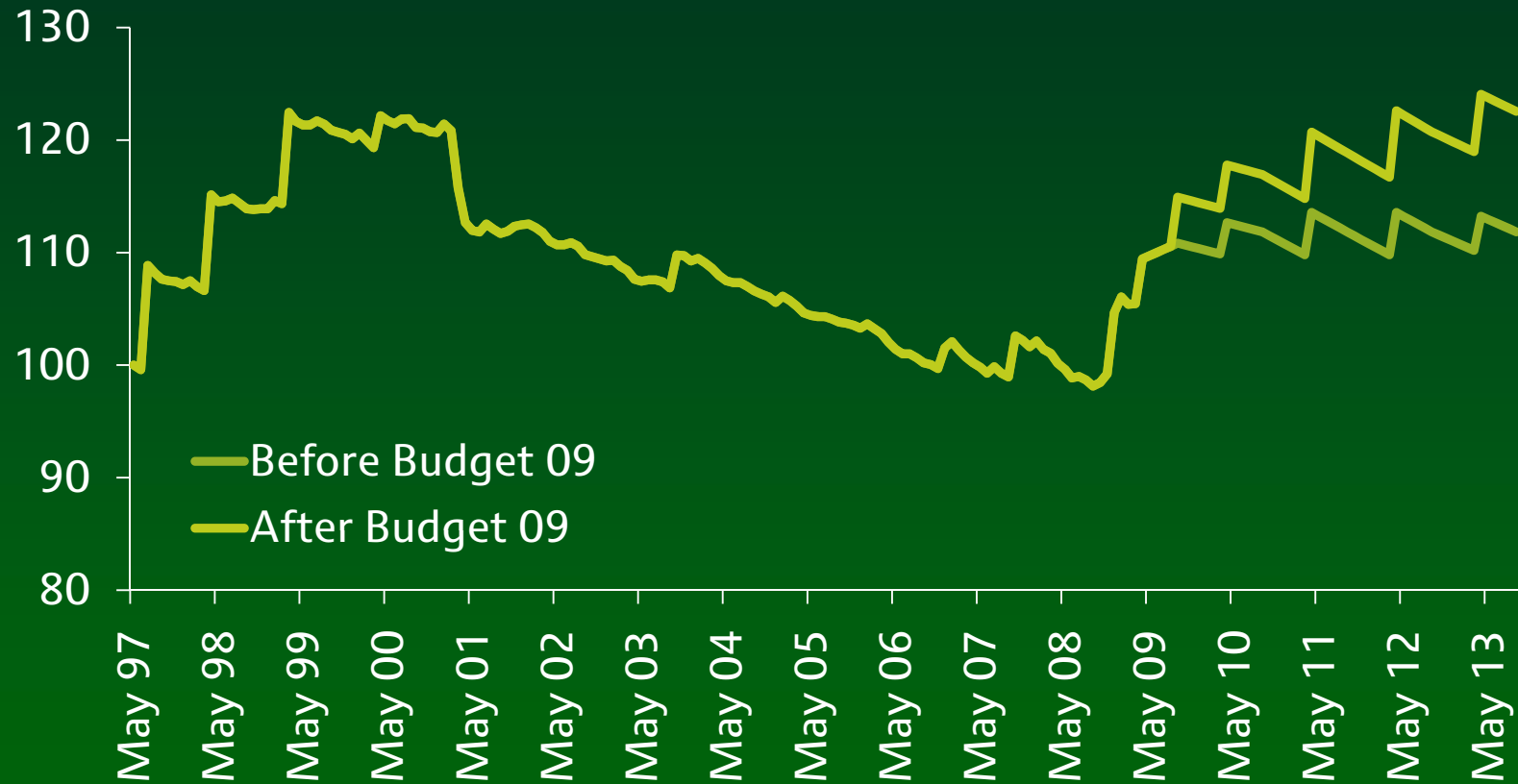
- Alcohol
 - No change from Budget 2008 policy of RPI+2% increase this year and every year up to 2013
 - Confirmation that if RPI below zero then ‘baseline’ change is zero
- Tobacco
 - Immediate 2% rise in specific duty
 - Raises £60m per year

Fuel duty – the escalator strikes back

- 1993-1999: duties increased above inflation each year
 - RPI+3% from 1993, 5% from 1995, 6% from 1997
- Escalator abandoned in 1999 PBR
- Since then: sporadic increases, not more than inflation uprating
 - Increases tended to be deferred or cancelled when oil price high
- New from Budget 2009:
 - Additional 2p duty rise in September 2009
 - RPI+1p rises in April 2010, 2011, 2012 and 2013
 - Increase from RPI+½p for April 2010 that we knew from Budget 2008
 - Raises £600m this year, £1.25bn next, £1.75bn in 2011-12
 - Subject to further fluctuations in crude oil prices?

Real-terms fuel duty index

May 1997 = 100



Car scrappage scheme

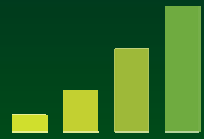
- £1,000 to scrap a car or van 10+ years old and buy a new vehicle
 - If matched by participating manufacturer
 - Must have owned old car for at least a year
- Total cost to Government capped at £300m
 - Scheme runs May 2009–March 2010, ends earlier if fund exhausted
- Maximum of 300,000 subsidies available
 - 2.4m new car sales in 2008, down by around 30% so far in 2009
 - 10m or so eligible cars and vans – so about 3% could be scrapped?
 - Potential for the scheme to cost much more – can the cap hold?
- No restriction on eligible new cars (e.g. by CO₂ emissions)
 - Environmental impact “neutral or modestly positive” (HMT)
 - New cars are cleaner, safer and more fuel efficient on average
 - But drive new cars more? Vehicle production environmentally costly?

Potential impact on the car industry?

- What would have happened without the policy?
 - Annual scrappage rates of eligible cars probably much more than 3%
 - So likely that many who take it up would have scrapped anyway
 - But now more likely to buy new than second-hand
- Might the benefits go elsewhere?
 - Only around 1 in 7 cars bought in UK are produced here
 - May be significant UK input into cars produced abroad
- What might the other effects be?
 - Fewer old cars offered for sale – bad for new drivers?
 - Incentive to scrap now, not later – car sales may fall again next year?
 - “Rebound” bit like the temporary VAT cut ... what if the recession more prolonged?

Other environmental measures

- Landfill tax
 - Annual increase of £8/tonne for standard waste extended to 2013
 - Rate to reach £72/tonne by April 2013 from £40/tonne now
 - Tightening of loopholes as to what counts as landfill ‘disposal’
 - Together raise about £150m in 2011-12
- Reforms to Company Car Tax from 2011
 - Raises around £85m
- Various small environmental expenditure measures
 - £365m for various energy efficiency measures for homes and business
 - £405m for low-carbon energy generation technologies
 - Money to prepare for up to 4 CCS demonstration projects



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Post Budget briefing

Institute for Fiscal Studies, 23rd April 2009

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