Motoring is a significant source of tax revenue

<table>
<thead>
<tr>
<th>2011–12</th>
<th>Revenue (£ bn)</th>
<th>% Receipts</th>
<th>% GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel duties</td>
<td>27.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VAT on duty</td>
<td>5.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VED</td>
<td>5.9</td>
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</tr>
<tr>
<td>Total motoring</td>
<td>38.3</td>
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Source: IFS calculations from OBR Autumn Statement 2011 estimates
Motoring is a significant source of tax revenue

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</thead>
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<tr>
<td>Fuel duties</td>
<td>27.0</td>
<td>4.7%</td>
<td>1.8%</td>
</tr>
<tr>
<td>VAT on duty</td>
<td>5.4</td>
<td>0.9%</td>
<td>0.4%</td>
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<td>1.0%</td>
<td>0.4%</td>
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<td>Total motoring</td>
<td>38.3</td>
<td>6.7%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

**£ bn**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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<tbody>
<tr>
<td>Total receipts</td>
<td>575.5</td>
</tr>
<tr>
<td>GDP</td>
<td>1,521.0</td>
</tr>
</tbody>
</table>

Source: IFS calculations from OBR Autumn Statement 2011 estimates
Real revenues are near historic highs...
Inflation-adjusted receipts of motoring taxes (2010 prices), 1965–2010

Source: IFS calculations from ONS data, deflated using GDP deflator from HM Treasury data
... but fallen relative to other receipts recently
Motoring taxes as a share of total receipts, 1965–2010

Source: IFS calculations from ONS data
The trend looks set to continue in the short-term
Forecast motoring taxes as a share of total receipts

Outturn

<table>
<thead>
<tr>
<th>Year</th>
<th>Share of total receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>6.0%</td>
</tr>
<tr>
<td>2010-11</td>
<td>6.0%</td>
</tr>
<tr>
<td>2011-12</td>
<td>6.0%</td>
</tr>
<tr>
<td>2012-13</td>
<td>6.0%</td>
</tr>
<tr>
<td>2013-14</td>
<td>6.0%</td>
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<tr>
<td>2014-15</td>
<td>6.0%</td>
</tr>
<tr>
<td>2015-16</td>
<td>6.0%</td>
</tr>
<tr>
<td>2016-17</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

6.0%: lowest since 1954

Source: IFS calculations from OBR data
Revenues could continue to erode in long-run
Forecast motoring taxes as a share of GDP, 2000–01 to 2029–30

Share of GDP (%)

Source: OBR Fiscal Sustainability Report (2011)
Putting the long-term decline into context

- Receipts 0.9% of GDP lower by 2029–30 if OBR correct
- Equivalent to about £13.2 billion in today’s terms
- Approximate tax changes to generate £13 billion include:
  - 3.4p rise in the basic rate (from 20p)
  - 2.7ppt rise in the main rate of VAT (from 20%)
  - 51% rise in main fuel duty rate (from 58p)
- Overstating the likely decline?
  - Assume no change in VED thresholds: 85% of fleet exempt by 2030
- Or understating?
  - Assume fuel duty inflation-adjusted each year
  - Unlikely if oil prices remain high – Autumn Statement froze rates
What’s behind the decline?

Increased fuel efficiency...
Avg. new car emissions, g CO₂/km, 1997–2010

... and recession-hit road use ...
Motor vehicle km (billions), 1997–2010 (GB)
What’s behind the decline?

... have combined to reduce fuel sales

Sales of vehicle fuel, billion litres, 1997–98 to 2010–11

Source: HMRC UK Trade Info data

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What’s behind the decline?

More efficiency & falling real duty means each km is taxed less

Average duty rate and receipts per kilometre, 1993–2010 (2010 prices)

Source: IFS calculations from DfT and ONS data, deflated using all-items RPI index
What’s behind the decline?

Vehicle numbers up, but VED per vehicle down as efficiency rises

Registered vehicles and real VED receipts per vehicle, 1993–2010 (2010 prices)

Source: IFS calculations from DfT and ONS data, deflated using all-items RPI index
The economic rationale for road pricing is clear

Distribution of marginal external costs of road use (pence/km), 2010

Source: IFS calculations from DfT (2010) estimates
But fiscal pressure may be spur for reform

- Economic case is well-known, certainly since Eddington (2006)
- Would need ever higher real duty to offset revenue loss
  - Increasingly regressive if poor households have less efficient cars
  - Duty becomes ever-worse instrument to target external costs
- Road use may provide more secure tax base than vehicles & fuel
- CCC (2010) estimates:
  - Fleet efficiency 168g CO$_2$/km (2011) to 76g (2030)
  - 60% new car sales electric (zero fuel) by 2030
  - Road use 516 billion vehicle km (2011) to 637 billion (2030)
- Government should recognise this and start to lay ground now
  - Road user charging should be largely offset by cuts to fuel duty
  - Need to make the case for reform: inaction not a neutral policy!