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

<table>
<thead>
<tr>
<th></th>
<th>£ bn</th>
<th>% of revenue</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel duties</td>
<td>27.9</td>
<td>3.8%</td>
<td>1.4%</td>
</tr>
<tr>
<td>VAT on duties</td>
<td>5.6</td>
<td>0.8%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Vehicle excise duty</td>
<td>5.8</td>
<td>0.8%</td>
<td>0.3%</td>
</tr>
<tr>
<td>London congestion charge</td>
<td>0.3</td>
<td>&lt;0.1%</td>
<td>&lt;0.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39.5</strong></td>
<td><strong>5.4%</strong></td>
<td><strong>2.0%</strong></td>
</tr>
</tbody>
</table>

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

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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

- Bigger share of budget for low-income motorists
- But low-income households less likely to have a car (or two)

<table>
<thead>
<tr>
<th>Income decile group</th>
<th>% of non-housing expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poorest</td>
<td>3%</td>
</tr>
<tr>
<td>2</td>
<td>3%</td>
</tr>
<tr>
<td>3</td>
<td>3%</td>
</tr>
<tr>
<td>4</td>
<td>3%</td>
</tr>
<tr>
<td>5</td>
<td>4%</td>
</tr>
<tr>
<td>6</td>
<td>3%</td>
</tr>
<tr>
<td>7</td>
<td>3%</td>
</tr>
<tr>
<td>8</td>
<td>3%</td>
</tr>
<tr>
<td>9</td>
<td>3%</td>
</tr>
<tr>
<td>Richest</td>
<td>2%</td>
</tr>
<tr>
<td>All</td>
<td>3%</td>
</tr>
</tbody>
</table>

Sources: Author’s calculations using TAXBEN run on uprated data from the 2014 Living Costs and Food Survey
Why tax motoring (more than other activities)?

Because motoring causes harm to wider society (‘externalities’)

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

<table>
<thead>
<tr>
<th></th>
<th>Marginal external cost of motoring in 2015, p/km</th>
</tr>
</thead>
<tbody>
<tr>
<td>Congestion</td>
<td>11.3</td>
</tr>
<tr>
<td>Accidents</td>
<td>1.7</td>
</tr>
<tr>
<td>Greenhouse Gases</td>
<td>0.8</td>
</tr>
<tr>
<td>Noise</td>
<td>0.1</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>0.1</td>
</tr>
<tr>
<td>Local Air Quality</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15.3</strong></td>
</tr>
</tbody>
</table>

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\textsuperscript{st}-year (‘showroom’) tax based on CO\textsubscript{2} 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\textsuperscript{nd}-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 CO₂ 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