Environmental Audit Committee
Vehicle Excise Duty as an Environmental Tax

Minority Report by Graham Stuart MP

Summary

- Ineffective green taxation will result from the changes to VED, not least because the Treasury has not modelled what their impact will be on carbon emissions. Green taxes will be given a bad name.

- The Treasury had failed to produce detailed analysis of the financial effects of VED on different income groups.

- The Committee is incorrect when it asserts that changes to VED are not retrospective. This is a new tax on old cars.

- **It is recommended that the increases in VED should be reversed until the financial and environmental impacts are properly assessed and a car scrappage scheme has been introduced.**

Introduction

This Minority Report agrees with many of the facts found in the Chairman's Report, though not with its conclusion. The Chairman's Report concludes that the Committee welcomes the changes to VED in the Budget, before going on, for example, to acknowledge that the Treasury has not even modelled their impact.

The Minority Report argues that because of the shortcomings in the changes to VED rates identified by the Committee, the VED changes should be reversed until such time as the Government has:

1. Modelled what impact on carbon emissions the rebanding of existing cars will have.
2. Produced a detailed analysis of the financial effects of VED changes on different income groups.
3. Ensured that the VED band of second-hand cars is clearly labelled by showrooms and dealers.
4. Introduced a car scappage scheme.

Lack of Environmental Modelling

The thinking behind differentiated VED rates is that they will change behaviour. However, there is insufficient understanding of the impacts of the retrospective application of VED rate rises to know how exactly behaviour will be affected.

The Committee heard evidence from the Exchequer Secretary that the Treasury has not modelled the impact of rebranding of existing cars will have on carbon emissions. This is astonishing given that the Exchequer Secretary also told the Committee that the changes were primarily made for environmental purposes.

It is this cavalier attitude which gives environmental taxes a bad name.

No consideration has been given, for example, to the possibility that first year payments may be absorbed by car dealers. There is a case for examining the appropriateness of a spike in year two, rather than year one.

Green transport taxes should aim to influence vehicle design. The constant changes in VED and the different ways they are implemented do not give the manufacturers and the car market a long-term consistent framework within which to make buying and investment decisions. The Government should seek to create a political consensus on a long-term vision for VED and avoid unpredictable annual measures designed more to raise revenue than to provide a sensible, sustainable framework.

Some experts have warned that the changes to VED rates may result in increased carbon emissions as drivers hold on to old cars whose resale value has plummeted thanks to the VED changes.

It is not clear how the Committee can welcome the VED changes when even the Treasury does not know whether they will achieve what they set out to do.

Impact on Low Income Groups

Given the impacts of the credit crunch, inflation and the reduction in disposable incomes it is important that the Government is sensitive to the financial difficulties facing most families and the application of significantly increased VED rates has not been properly analysed.

The lack of evidence is revealed in an answer to a Parliamentary Question, which suggests that over half of car owners in households earning £15,000 a year or less face above-inflation rises in VED. The Exchequer Secretary said in the answer:

There are numerous definitions of what constitutes a low-income household and the Government does not collect data from drivers when purchasing tax discs according to their household in come. However, the best available relevant data suggests:

- around half of households in the lowest 20% of incomes do not pay Vehicle Excise Duty at all (Expenditure and Food Survey);

- where lower income householdds own a car ,they are more likely to own a pre-2001 car, for which the maximum VED rate will be £200 in 2009, as opposed to the maximum VED rate of £440 for post-2001 cars; and

- on the income breakdown recorded in the DfT's National Transport Survey, of new cars sampled between 2004 and 2006, of all households sampled with incomes less than £15,000, 41% had cars in current VED bands B or C. Of households with incomes less than £20,000, 40% had cars in VED bands B or C. This compares with the overall average for all cars, of 31% in VED bands B or C.

The Treasury must carry out a detailed analysis of the impact of VED rate changes and until this is complete the tax change should be reversed.

The tax change is retrospective. Never before has there been a significant increase in VED for existing cars. Rates of lower-emitting cars have been cut and universal (normally index linked) revalorisation has taken place, but the increases proposed in the Budget are both unprecedented and retrospective.

When Band G rates were introduced in 2006, they applied only to new vehicles. In acting in this way the Government created a reasonable expectation that it would continue to act this way in future.

Scrappage Scheme

The Committee acknowledges that changes to VED rates must go hand-in-hand with a car scrappage scheme. Several models exist and the Government has received independent advice on the types of scheme that could be implemented in Britain.

In its written submission to the Committee, Friends of The Earth referred to car scrappage payment schemes which have been implemented in other countries. Their ideas appear to have been influenced by car scrappage schemes which were implemented by several countries within and outside Europe during the 1990s, such as Greece (1991-1993), Hungary (1993 up to the present) Denmark (1994-1995), Spain (1994 up to the present), France (1994-1996), Ireland (1995-1997), Norway (1996) and Italy (1997-1998). Local governments in the United States and Canada have also introduced similar schemes.[1]

There are two ways in which scrappage schemes may be implemented. Financial incentives may either be made available regardless of the subsequent vehicle that the owner purchases, or may be made dependent upon a specific type of replacement vehicle being chosen. FOE does not commit to either type of scheme although it suggests that 'payment could be made conditional upon proof of purchase of a greener second hand vehicle'.[2]

The Commission for Integrated Transport independently advises the Government on integrating their transport policy. It has also considered the potential applicability of scrappage schemes to the UK in light of international experience.[3] In contrast to the schemes from abroad, the CfIT worked on the premise that incentives should not be tied to the purchase of a new car, instead outlining suggestions for a sliding scale based on the age of the vehicle. Another alternative being considered is a higher-value payment in the form of public transport vouchers. This would potentially have a direct effect on consumer behaviour with stakeholders such as the bus industry being perhaps the best positioned to promote such a scheme.

Although environmental concerns appear to lie at the heart of all car scrappage schemes introduced thus far, very few of the schemes examined in closer detail involved any sort of quantitative assessment of the direct or economic impact on the environment. However, some assessments have been made of the impact on the car manufacturing industry, GDP and employment in the sector.[4]

Other factors to bear in mind include the increasing cost per tonne of emissions avoided once the number of vehicles scrapped goes beyond a certain point (diminishing returns) and the potential disturbances to the car market, such as that seen recently in Spain.[5]

The VED changes should be reversed until such time that they can be redesigned in conjunction with a car scrappage scheme.

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[1] European Conference of Ministers of Transport 1999
http://www.internationaltransportforum.org/europe/ecmt/environment/pdf/CM199926Fe.pdf
[2] Written Submission to the EAC
http://www.foe.co.uk/resource/consultation_responses/ved_response_jun08.pdf
[3] Commission for Integrated Transport – Report on pollution from older vehicles
http://www.cfit.gov.uk/docs/2000/pollution/pollution/ov/index.htm
[4] Ref 1
[5] Just Auto – 16 July 2008 http://www.just-auto.com/article.aspx?id=95438

Second-hand Cars

The VED band of second-hand cars must be clearly labelled by showrooms and dealers and not hidden in an overall ‘on the road’ cost.

Until such a requirement exists on dealers the VED changes should be reversed.