

TAX BRIEFING NOTE

FUEL DUTY

DECEMBER 2017

What is it?

Fuel duty is an excise duty on hydrocarbon oils, biofuels and road fuel gases such as liquid petroleum gas.

Petrol duty was introduced in 1908 at 3d (old pence, equivalent to 1.3 new pence) per gallon. Between 1978 and 1980 diesel was charged a higher rate than leaded petrol, and then again between 1982 and 1994 it attracted a higher rate than unleaded. After 1994 the diesel and unleaded rates were aligned. Between 1982 and 2000 a lower rate (by as much as 18 per cent) applied to diesel than leaded petrol. In 1988 the rate for unleaded was introduced at lower level than leaded petrol, to encourage motorists to switch. By 2000, the leaded rate was withdrawn when its sale was banned. Unleaded and diesel rates were aligned in 2001 and have remained so ever since.

In December 2008, fuel duty rose from 50.35p to 52.35p a litre. In April 2009, it rose again to 54.19p. In September it was increased yet again to 56.19p and then to 57.19p in April 2010. After the election, the coalition government increased it once more to 58.19p in October and then 58.95p in January 2011. Finally, in April 2011 it was cut to its current level of 57.95p.

What's the problem with it?

It's far too high and it's economically damaging. There is some justification for fuel duty in principle. The degradation of local air quality and the contribution to climate change are both reasonable arguments for some level of particular tax on motoring fuel and all fuel, respectively. The problem is that these arguments only support a level of fuel duty much lower than the current rate.

Department for Business, Energy and Industrial Strategy assumptions for short-term traded carbon values in the emissions trading scheme reflect the cost of reducing carbon emissions elsewhere. Applying these to the emissions factor for petrol implies a carbon tax per litre of 1p in 2015, rising to 18p in 2030 (both at 2016 prices), when a single global carbon price is scheduled. Combined local and national road spending could justify another 19p. This 37p total should serve as a maximum, however, because the impact on local air quality and congestion is very weakly correlated with fuel combustion.¹ Road pricing (including congestion charges) deal with congestion while local emissions regulations (such as low emissions zones) are much less blunt tools than a national (or even local) fuel duty.

In addition to the economic damage all taxes inflict on the economy, fuel duty above the 37p a litre level indicated above has two specific problems. First, it distorts economic patterns of consumption and production. Secondly, it prevents workers from accessing potential jobs. This restricts economies of scale, reduces competitiveness and hinders industrial specialisation, resulting in lower income levels.

What should be done?

1. Cut the rate by 5p a litre.
2. Guarantee no rate rises until inflation brings the rate down to 37p in 2016 prices.

¹ See Meakin in Booth et al, *Taxation, Government Spending & Economic Growth*, IEA, 2016, <https://iea.org.uk/publications/taxation-government-spending-economic-growth-in-brief/>

International Energy Agency data shows the UK had the highest rate of fuel taxes among 35 countries²

Country	Fuel duty (local)	Fuel duty (USD)	Fuel duty (% of UK)
Australia	0.392	0.295	33
Austria	0.482	0.535	60
Belgium	0.619	0.687	77
Canada	0.338	0.264	30
Chile	317.00	0.484	55
Czech Republic	12.840	0.522	59
Denmark	4.137	0.615	69
Estonia	0.423	0.469	53
Finland	0.681	0.756	85
France	0.624	0.693	78
Germany	0.655	0.727	82
Greece	0.670	0.744	84
Hungary	120.000	0.430	48
Iceland	69.860	0.530	60
Ireland	0.588	0.653	74
Israel	3.056	0.786	89
Italy	0.728	0.808	91
Japan	56.300	0.465	52
Korea	781.890	0.691	78
Latvia	0.411	0.457	51
Luxembourg	0.462	0.513	58
Mexico	0.000	0.000	0
Netherlands	0.744	0.859	97
New Zealand	0.671	0.468	53
Norway	5.820	0.722	81
Poland	1.669	0.443	50
Portugal	0.618	0.686	77
Slovak Republic	0.515	0.572	64
Slovenia	0.545	0.605	68
Spain	0.462	0.513	58
Sweden	5.575	0.661	75
Switzerland	0.735	0.764	86
Turkey	2.177	0.799	90
United Kingdom	0.580	0.887	100
United States	0.143	0.143	16

² OECD, *Tax Administration 2015 - Comparative Information on OECD and Other Advanced and Emerging Economies*, 2015, Table 4.A4.6, [http://www.oecd.org/ctp/consumption/Table-4.A4.6-Taxation-of-premium-unleaded-\(94-96%20RON\)-gasoline-\(per%20litre\)-2015.xls](http://www.oecd.org/ctp/consumption/Table-4.A4.6-Taxation-of-premium-unleaded-(94-96%20RON)-gasoline-(per%20litre)-2015.xls)