RAC Foundation response to HM Treasury's Vehicle Excise Duty: Call for evidence

September 2020.

The RAC Foundation is a transport policy and research organisation which explores the economic, mobility, safety and environmental issues relating to roads and their users. The Foundation publishes independent and authoritative research with which it promotes informed debate and advocates policy in the interest of the responsible motorist.

1. Why are first licence VED rates currently failing to discourage many car buyers from making higher emitting choices?

First licence VED rates are only one part of the equation when it comes to buying a car. Many of the other factors are also financial - list price of the vehicle, insurance costs, maintenance cost, residual value. But for the individual car buyer considerations also include safety, performance and practicality as well as brand and model loyalty, and fashion trends.

Larger and heavier vehicles are often more attractive to consumers because they are perceived to be more robust in the case of a collision. The higher driving position associated with such vehicles is also often regarded as an advantage when it comes to vehicle choice. It is notable that, across the board, vehicle size and weight has increased over time as a result of the growing number of protection systems now routinely and welcomingly found in new cars.

Whilst financial considerations might be a bigger influence for fleet purchasers, the selection of vehicles still needs to recognise the market appetite amongst rental and lessee customers.

The growing popularity of so-called 'sport utility vehicles' (SUVs) can be explained by the fact that they generally offer family-sized interior space, easy access, a comfortable ride across our pitted and potholed roads, and performance comparable to their saloon equivalents, including better than the historic average fuel consumption for such vehicles, factors which seem to be outweighing their poorer environmental performance or higher fuel consumption when compared to smaller, lighter vehicles.

This piece by vehicle sales and leasing company OSV provides a concise analysis of car buyers' considerations: https://www.osv.ltd.uk/deciding-factors-buying-new-car/

The other factors likely to be influencing decisions are the proportion of VED first licence rate compared to the overall purchase price of the vehicle (plus other costs such as insurance), and the impact of personal contract plans, which turn an up-front capital cost into a monthly sum that might appear much more affordable. First year rates in the hundreds of pounds are likely to disappear in the rounding on a purchase price in the tens of thousands. Additionally, they may be regarded as one of the costs that the dealer decides to swallow as part of the discount it offers the consumer to make a sale.

2. What are your views on higher first licence VED rates for more polluting vehicles?

The RAC Foundation is generally supportive of the case for having higher first year licence VED rates for more polluting vehicles as part of a broader package to encourage and incentivise the take-up of cleaner vehicle options. However, it is important that the overall system remains tax neutral, i.e. any increase in VED on the most emitting vehicles should be matched by decreases at the ultra-low end of the scale. This could be one way of continuing the financial support currently available for zero emission vehicles through the plug-in grant schemes.

3. How would this impact the vehicles that manufacturers sell in the UK?

The answer to this question very much depends on the level and gradient of the first year rates alongside the regulatory obligations that apply to the OEMs across the global marketplace.

4. What are your views on the potential ways of enhancing the impact of first licence VED outlined above?

There is a clear logic to moving toward a more granular scale of charges, so long as the approach does not add cost merely through administrative complexity, and the results are clearly displayed in the new car fuel labels so consumers can make an informed choice. Though not strictly speaking about enhancing the impact on purchase decisions, any such move will clearly need to protect the overall yield from VED which is now dedicated to funding road expenditure, in particular Highways England through the Road Investment Strategy. Having a clear rationale for the level and gradient of VED would be key to making such an approach acceptable. Any change to the system would need to be accompanied by detailed modelling of the impact the fine tuning has in terms of CO_2 reduction.

Fundamentally the decision for Government here is between using the first year VED rate as a 'nudge' measure, which we would in principle support, to prompt purchasers to give particular consideration to emissions performance and reward them for choosing the cleaner options, and a much more punitive 'sledgehammer' approach, such as that in Norway, which could have the perverse impact of incentivising buyers to hang on to older, less fuel-efficient cars for longer rather than trading in for a new model.

5. For new vehicles, do you think that government should base ongoing VED liabilities on carbon emissions, rather than just at first registration?

We accept that there is a logic for doing so assuming the rate of fuel duty stays frozen – the financial incentive effect needs to be considered taking both the efficiency of the vehicle and its actual fuel consumption into account. Clearly there is a relationship between vehicle ownership and vehicle use, but it is the latter that leads to the emissions problem.

6. Do you think the government should reform VED rates for vehicles registered from 1 April 2017 so their liabilities reflect their carbon emissions?

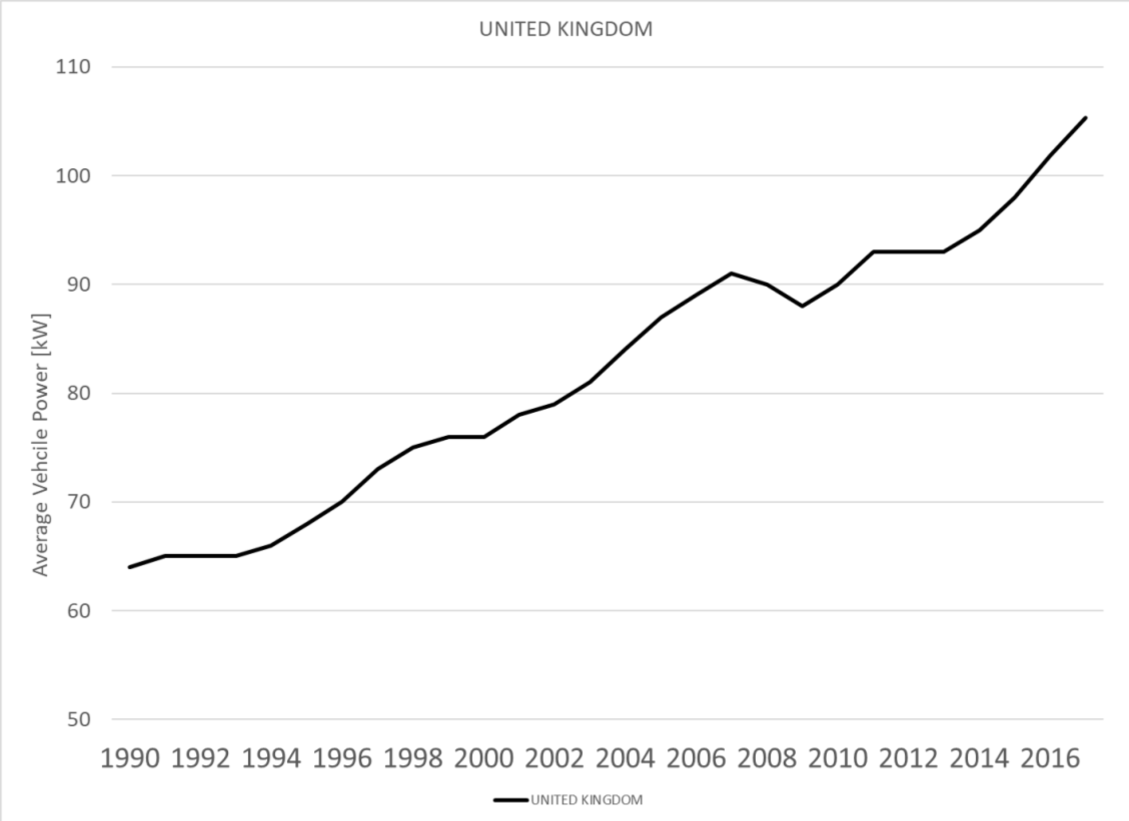
Disposing with the emissions-based VED graduation as of April 2017 was a somewhat sweeping simplification, but hindsight is a wonderful thing and we are where we are. Whilst changing the regime for vehicles registered after April 2017 would not amount to being fully retrospective legislation – drivers would not be asked to pay additional sums of VED for years already past – it would move the goal posts for the years ahead in a way that the consumer could not have known or anticipated at the point of purchasing the vehicle and that would make any such move controversial, not least by potentially harming the residual value of the vehicle depending on the level and gradient of graduated VED imposed.

Such a move could, however, be defended if the Government could produce modelling to show the range of anticipated cost:benefit outcomes for the proposed graduated levels of VED and the resulting net contribution to achieving the binding legislative requirement to achieve net zero carbon – so much would depend on the range of VED levels being contemplated that without such a calculation it is hard to say whether such a move would cause more damage by its 'retrospective' nature than it would deliver by way of carbon-saving benefit.

7. Are you aware of any unintentional perverse environmental incentives that have developed over time relating to VED on vehicles first registered prior to April 2017? Do you think government should take any action relating to this?

The introduction of the 'cliff-edge' three tier approach in 2017 is bound to have created anomalies though estimating the full CO_2 impact is hard because the incentive to find a model in the lower of the two charged VED brackets is likely to have nudged some buyers into smaller, lighter, less performance-oriented choices that in turn have a lower carbon footprint.

It is worth noting that, anecdotally, there has been a view amongst car manufacturers that whilst 'performance sells', environmental improvements carry little or no consumer value, therefore the increase in the retail price of cars caused by adding 'green' technology has often been accompanied by an increase in vehicle performance – the average power output for vehicles sold in the UK since 1990 has almost doubled meaning the improvement in environmental performance has not been as great over time as it might have been (see chart below. (Source: ACEA). Whilst some of that power increase is linked to the rising average weight of cars – a result of more safety measures and more 'electric' adjustment systems in the cabin – a good proportion will be a 'cover' for tighter, and expensive to implement, environmental standards.



8. Do you think motorcycles should be taxed based on carbon emissions?

The administrative effort involved in creating a graduated scheme feels like it would be out of proportion to its likely impact on real-world emissions given the tiny proportion of driven miles accounted for by powered two-wheelers, the existing graduation by engine size (despite the anomalies that creates) and the incentive already created through fuel duty. The Government's effort would probably be better spent helping to foster the nascent market in zero-tailpipe-emission motorcycles, where the issues of range and comparative cost remain more of a barrier than for the latest EV cars coming to showrooms in 2020 – the currently available models can be double the cost of their petrol equivalents.

9. What impact would this have on the behaviour of those looking to purchase a new motorcycle?

Much would depend on the answer to question 6. Depending on the VED rates in question it is possible that some purchasers would opt instead for used machines sold under the current VED regime.

10. Should the government continue to take account of NOx emissions if it reforms the VED system?

There are various flaws in making a simplistic distinction between the environmental performance of diesel vs petrol vehicles. The fiscal incentive regime should be focused on the measured emissions performance – be that CO_2 or NO_x – not the fuel type.

11. Is the signal to purchase RDE2 compliant diesel cars strong enough?

We have no evidence to offer on this point, though for consumers there is likely to be confusion between the general anti-diesel rhetoric and the more nuanced point that RDE2-compliant models are a good choice for certain types of driving. However, there are reports that fleet managers might be increasingly tempted to buy RDE2 diesels because of the removal of the 4% diesel surcharge and the 2% benefit-in-kind cut which took place on 6 April this year.[1] Whether this turns out to make any meaningful impact on sales will only be fully revealed when the new car market has recovered from the impact of Covid-19.

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[1] https://www.fleetalliance.co.uk/news/tax-beating-rde2-diesels-are-on-the-rise/