

Fuel Duty

SEPTEMBER 2016



It's easier to leaseplan

Introduction

57.95 pence a litre. That is the current rate of Fuel Duty, and that's what it has been since March 2011. We haven't paid a different rate for over five years now. This is a tax that seems to be in a perma-freeze.

But, make no mistake, Fuel Duty is still a hot topic. Its recent history may have been unchanging, but its past and its future are a very different matter. From its establishment in the early days of the motor car, through to the rate hikes imposed by former Chancellors such as Norman Lamont and Gordon Brown, and on into the uncertain electric future, Fuel Duty has always captured our minds and our wallets.

Which is why we have put together this briefing document on Fuel Duty. It is split into the following sections:

- **What is Fuel Duty?** Here are the basics about this tax that almost all motorists pay.
- **A modern history of Fuel Duty.** From Norman Lamont's introduction of the road fuel escalator in 1993 to George Osborne's numerous freezes, this is Fuel Duty in chronological terms.
- **Fuel Duty today.** How is the policy currently implemented? And how much money does it raise for the Government?
- **The future.** Some observers think that Fuel Duty is on the wane. We explain their reasons why.

LeasePlan has produced briefings for its customers before – recently, on this year's Budget and on the diesel situation. We see it as our responsibility to keep you informed about all the things that matter in motoring. That way, you will be better positioned to make the best decisions for your fleet.

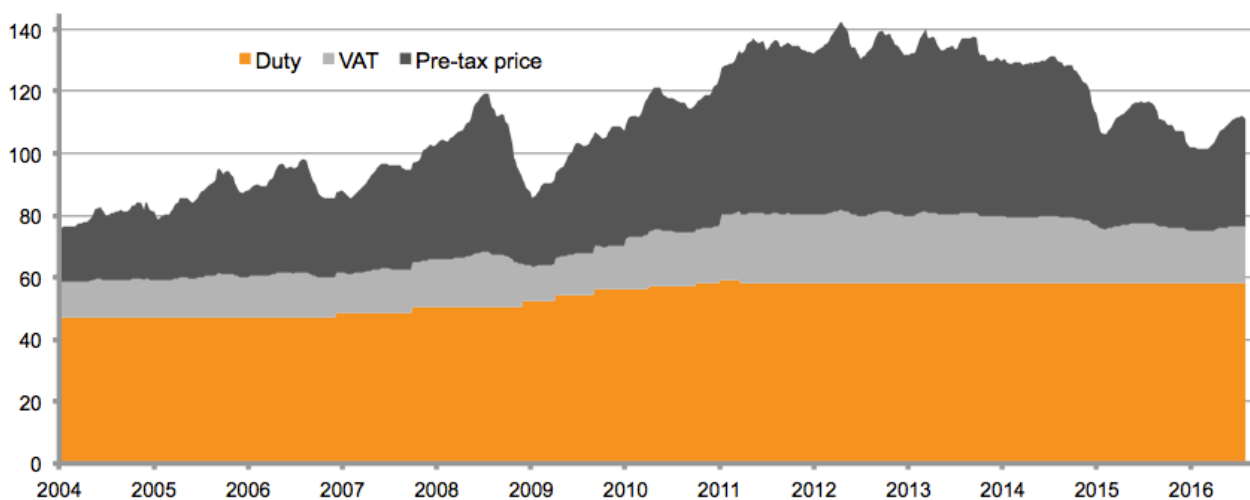


What is Fuel Duty?

- For almost as long as there have been petrol stations, Fuel Duty has been an unavoidable, if sometimes controversial, part of filling up at the pump. Around half of what you pay for petrol or diesel – 57.95 pence per litre – goes to the Government as Fuel Duty.
- The Government takes another chunk in VAT, which is charged at 20 per cent of the price of fuel including Fuel Duty. This means that, for an average litre of unleaded costing 111p, 76.5p (69 per cent) goes straight to HMRC.
- Figure 1 shows how the composition of petrol prices has changed since 2004.

Figure 1.

Average pump price of ultra low sulphur unleaded petrol, pence per litre



A Modern History of Fuel Duty

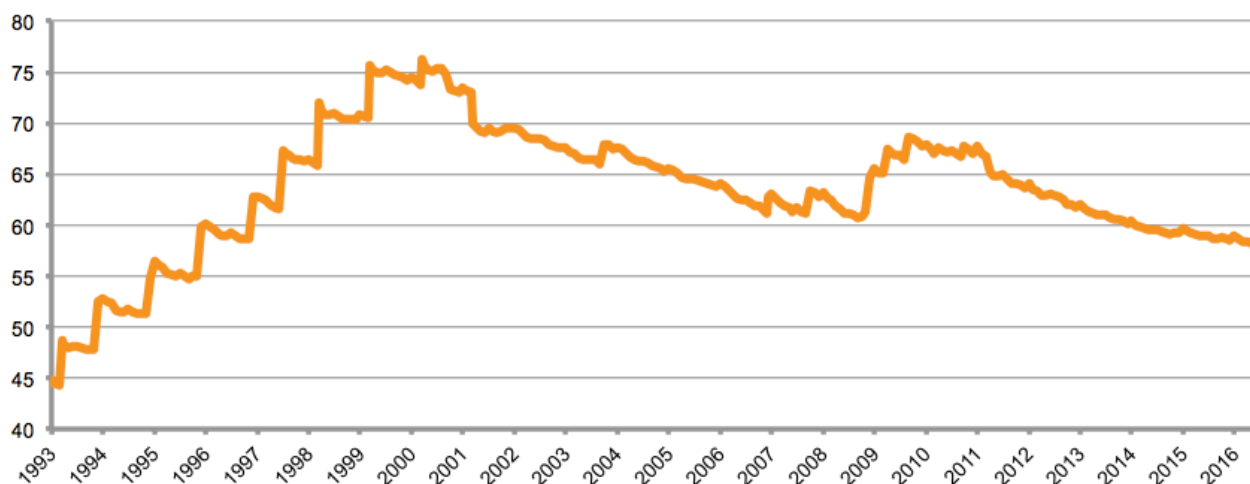
- The modern story of Fuel Duty starts 23 years ago, with Norman Lamont's Budget of March 1993. Having just abolished the 'Car Tax' that added 10 per cent to the purchase price of a new car, the then-Chancellor raised Fuel Duty by 10 per cent and introduced what became known as the 'road fuel escalator'.
- The escalator increased Fuel Duty each year over and above inflation. Lamont initially intended to raise the duty 'on average by at least 3 per cent a year' above inflation, but his successor Ken Clarke increased that ambition to 5 per cent a year.
- During Clarke's four years as Chancellor, from May 1993 to May 1997, the Duty increased by an average of 6.5 per cent a year on unleaded petrol and 7.2 per cent a year on diesel.
- When the Labour Party came to power in 1997, Gordon Brown initially retained the road fuel escalator and raised Fuel Duty by more than 5 per cent a year above inflation in his first two Budgets.
- In March 2000, however, under pressure from motorists and hauliers, Brown scrapped the escalator and increased Fuel Duty only in line with inflation. He also announced a 1p per litre cut in Duty on ultra low sulphur petrol to take effect in October that year.
- After rising fuel prices led to the protests, blockades and shortages of the 'fuel crisis' in September 2000, Brown responded by cutting Fuel Duty a further 2p per litre for unleaded petrol and 3p per litre for ultra low sulphur diesel in his Budget of March 2001.
- From 2001 to the financial crisis of 2008, Budgets either increased Fuel Duty only in line with inflation or not at all. This meant that, by November 2008, the Duty had fallen by 12 per cent in real terms (that is, accounting for inflation) from the level Brown cut it to in March 2001.
- In his 2009 Budget, faced with falling tax receipts and rising public spending, Chancellor Alistair Darling reversed course. He increased Fuel Duty by 2p per litre and also announced a new escalator of 1p per litre above inflation each year after.
- Darling's new escalator didn't last long. In his 2011 Budget, George Osborne scrapped it and cut Fuel Duty by 1p to 57.95p per litre. The Duty was still due to rise in line with inflation each year, but Osborne cancelled these rises in subsequent Budgets and Autumn Statements, so it has remained at 57.95p per litre ever since.

A Modern History of Fuel Duty

- Figure 2 shows how Fuel Duty on unleaded petrol has changed in real terms since 1993. In June 2016, it stood at its lowest in 20 years, 24 per cent below its peak in March 2000.

Figure 2.

Fuel Duty on unleaded petrol, pence per litre (June 2016 prices)



NB: Duty levels for all unleaded petrol from 1993 to October 2000, and ultra low sulphur thereafter. Converted to June 2016 prices using RPI.

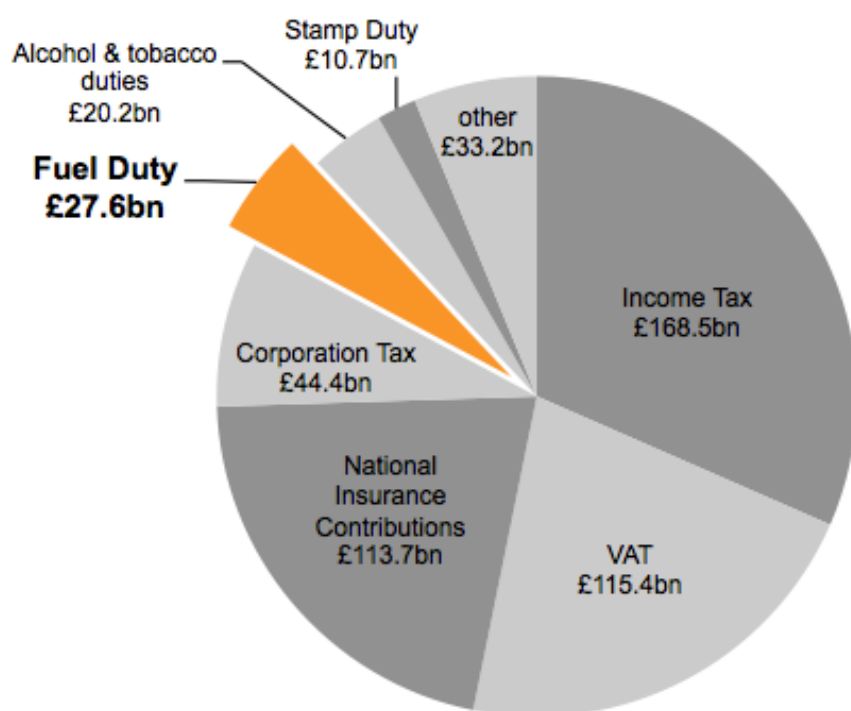
Source: House of Commons Library & Office for National Statistics

Fuel Duty Today

- In the last financial year (2015–16), Fuel Duty raised £27.6 billion – 5.2 per cent of all of HMRC's tax receipts or about £4 for every £100 spent by central government. (See Figure 3.)
- Though much smaller than Income Tax, VAT and National Insurance Contributions, Fuel Duty revenues are larger than those from duties on alcohol and tobacco (£20.2 billion), and than those from Stamp Duty Land Tax (£10.7 billion).

Figure 3.

HMRC receipts, 2015-16



- As Fuel Duty has decreased in real terms over the past decade-and-a-half, revenues from it have represented a smaller and smaller share of national income. At its peak in 1999-2000, Fuel Duty amounted to 2.2 per cent of GDP. By 2015-16, it had fallen to 1.5 per cent. (See Figure 4.)
- In 2012, the Government introduced a 'Rural Fuel Duty Relief' scheme, giving drivers on the Scottish islands and the Scilly Isles 5p per litre off the price of fuel. In 2015, this scheme was extended to certain rural areas in mainland Britain, including parts of Cumbria, Devon and the Scottish Highlands.

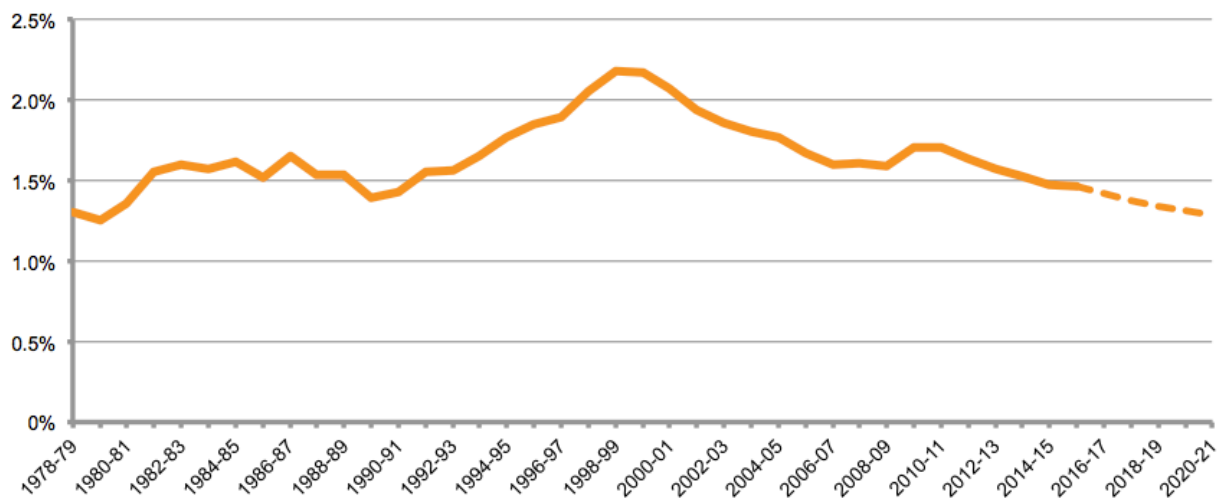
Source: HM Revenue & Customs

The Future

- Fuel Duty revenues are determined by two factors: the level of the Duty and the amount of fuel consumed.
- It remains to be seen how the new Chancellor, Philip Hammond, will approach Fuel Duty. Will he share George Osborne's preference for cutting and freezing it? Will he simply continue with the planned increases in line with inflation? Or will he take advantage of lower oil prices to return to the above-inflation rises of the 1990s?
- The other part of the equation – fuel consumption – in turn depends on the number of miles driven and the fuel efficiency of vehicles (the amount of fuel used per mile).
- Mileage is rising: 317 billion miles were driven on Britain's roads in 2015, up from 304 billion in 2013 and 312 billion in 2014. In July 2014, the Office for Budget Responsibility (OBR) forecast that it would continue to rise UK-wide by between 1.3 and 2.0 per cent a year until the mid-2030s.
- However, improving fuel efficiency is compensating for the extra mileage. The average new petrol car sold in 2014 used 5.5 litres per 100km – 28 per cent less than in 2004. The average new diesel car used 4.7 per cent – 24 per cent less than in 2004.
- Overall petrol and diesel consumption fell by 7.6 per cent from 2007 to 2009, due to a combination of improving fuel efficiency and a drop in mileage during the recession, and has remained relatively flat since. As manufacturers continue to improve fuel efficiency – and as more and more alternatively-fuelled vehicles hit the roads – consumption is likely to fall further, even as mileage continues to rise.
- On the assumption that the level of Fuel Duty rises only in line with inflation, the OBR expects revenues to fall both in real terms and as a share of GDP, due to falling consumption. In June 2016, it forecast that Fuel Duty revenues will be just 1.3 per cent of GDP in 2020-21 – the lowest they've been since 1980.

Figure 4.

Fuel Duty receipts as % of GDP (with OBR forecasts)



Source: HMRC, ONS, Institute for Fiscal Studies & Office for Budget Responsibility

Sources and further reading

Taxation of road fuels

Antony Seely, House of Commons
Library, 10 January 2014

Excise duties

Peter Levell, Martin O’Connell
and Kate Smith in IFS Green
Budget 2016, 8 February 2016

Budget 2016

HM Treasury, 16 March 2016

HMRC Tax & NIC Receipts

HM Revenue & Customs,
21 July 2016

Tax Information and Impact Note:

Rural Fuel Duty Relief

HM Revenue & Customs,
November 2011

‘Rural fuel price cut begins’

HM Treasury, 31 May 2015

Road Traffic Statistics: Great Britain 2015

Department for Transport,
19 May 2016

Fiscal sustainability report

Office for Budget Responsibility,
10 July 2014

Fuel Consumption statistical data set

Department for Transport,
11 December 2014

Economic and fiscal outlook

Office for Budget Responsibility,
16 March 2016

LeasePlan UK Ltd
165 Bath Road
Slough
Berkshire
SL1 4AA

Telephone: 0344 371 8032
Email: consultancyservices@leaseplan.co.uk

www.leaseplan.co.uk

