

PO-CH/NL/0489
PART A

PO CH/NL/0489

PART. A

PO CH/NL/0489
PART. A

1989 BUDGET
VEHICLE EXCISE DUTY.

THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM

Vehicle Exercise

Duty 1989 489

16

220 x 225



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

22 February 1988

The Rt. Hon. Paul Channon MP
Secretary of State for Transport

47
John Law

Following our exchange of correspondence in December, I am writing to let you know my decisions on vehicle excise duty rates.

I am content with your proposal to leave the main rates of VED unchanged and that there should be a new tax category for HGV 'special types'. I also agree with your view that there is a case for a thorough review of the "hackney" classes which you indicate are unique in falling short of track costs: it does seem curious that a coach has to have 66 seats before it pays as much VED as a car. I would be grateful if your officials could press on with this review so that information is available in good time for the run up to next year's Budget.

Peter Lilley has already written to Peter Bottomley indicating which of the minor starters he is content with.

John Law

NIGEL LAWSON

cc
CST
FST
PMG
Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Culpin
Mr Odling-Smee
Mr Riley
Miss Sinclair
Miss Evans
Mr Michie
Mr Unwin - C&E
Mr Knox - C&E
Mr Jenkins - Parl. Counsel



MP
BF/S/S

FROM: P JEFFERSON SMITH

DATE: 1 SEPTEMBER 1988

Board Room
H M Customs and Excise
New King's Beam House
22 Upper Ground
London SE1 9PJ
Telephone: 01-620 1313

ECONOMIC SECRETARY

cc PS Chancellor ✓
PS Financial Secretary
Mr Culpin
Mr Gilhooly
Mr Michie
Mr Cropper
Mr Jenkins
(Parliamentary Counsel)
PS/Inland Revenue
Mr Elliott IR

RECOVERY OF OVERPAID TAX AND DUTY FROM CUSTOMS AND EXCISE

1. This note is to seek your approval to instruct Parliamentary Counsel to draft legislation for next year's Finance Bill to give taxpayers a statutory right, subject to conditions preventing "unjust enrichment", to the refund of overpaid VAT and Excise Duties.

Background

2. Overpayment of tax can be the result of an error of fact, for example an arithmetic error; or a mistake of law, for example the wrong tax liability or the wrong value for tax, as was the position in the recent cases of Betterware and Fine Art Developments. In either situation, the taxable business has normally passed on the over-charge to its customers. Where it corrects this by giving the customers' credit, we have always allowed a tax refund by adjustment to a later VAT return. There are some 50,000 such adjustments a year, which cause little problem for either us or tax payers. But there is a handful of cases like Betterware and Fine Art Developments, where we disallow adjustments if the following criteria are met. Firstly, we are likely to query adjustments only when the sums involved are substantial; secondly, where credit has not or could not be given to the customer and in consequence a tax repayment would result in a windfall profit to the supplier. In such cases, we are able to refuse repayment if the original payment was paid under "mistake of law". This is a common law defence, open to all recipients of money wrongfully paid: but by an unpublished administrative ruling dating from the late 1940s, we are required to seek permission to plead it, on a case by case basis, from the Law Officers.

Internal Distribution:

CPS
Mr Fryett
Mr Wilmott
Mr Nissen

Dr McFarlane
Mr Trevett
Mr Bazley
Mr Holloway

Mr Gaw
Mr Whitmore
Mr Cockerell
Mr Deedman

3. The issue came to prominence following the cases of Betterware and Fine Art Developments. In the latter case Lord Justice Glidewell, although finding in favour of the Commissioners, commented that the refund of VAT overpaid in error should be governed by statutory rules, so obviating the need for litigation. In principle, and as Mr Finlinson said in his submission of 8 March, we accept that such a right should be enshrined in statute, subject only to an override where repayment would result in a windfall profit (unjust enrichment) to the taxpayer.

4. There is another problem, which is of European law. Where tax has been paid in breach of a provision of EC law, the European Court of Justice considers that as a general principle it should be repaid. Case law is developing, but the present position is that the ECJ allows only one exception to the general rule, which is where the repayment would result in unjust enrichment of the person to whom it is made, because the money would not or could not be passed on to the consumers who had ultimately borne the tax burden. In allowing unjust enrichment as a defence against repayment, the Court expects Member States to be operating according to a clear principle, visibly enshrined in domestic law. Our problem is that although we operate a rule of unjust enrichment (= windfall profit) it is neither in domestic law nor even published. No UK case has yet been heard in the ECJ, but when one is, the absence of a published unjust enrichment rule is expected to put us in serious difficulty.

5. In his note of 8 March, Mr Finlinson outlined a way forward. This was firstly to seek the Law Officers' approval to publishing guidelines on mistake of law; secondly to consider the form any legislation should take; and, thirdly, to review the wording of the VAT return and relevant Public Notices about the general correction of errors. You discussed the matter with Mr Finlinson and Mr Trevett on 29 March and agreed the need for legislation, but that this should be delayed until 1989 in order to allow more time to consider the issues. You also agreed that we should first seek the Law Officers' agreement to the issue of guidelines. These guidelines would have been by way of a holding operation until any legislation was in place and would have been published by way of a News Release, marking the way to any subsequent legislation.

The Guidelines

6. We first had to consider whether the guidelines on mistake of law should be drafted so as to apply to all Government Departments. In discussion with other interested Departments, including the Treasury Solicitor and the Law Officers, it emerged that there were objections to extending their application outside Customs and Excise and that the

Law Officers would not favour such an approach. This was because the problems that Customs had encountered were not necessarily the same as those experienced by other departments. In particular, departments such as the Inland Revenue and the Department of Health and Social Security were not concerned with European law and the concept of unjust enrichment. It was not therefore possible to draft guidelines which would be suitable service-wide and the Law Officers would still need, for every department, to consider each case on its merits when they wished to plead mistake of law. Nevertheless, we were still of the opinion that the Law Officers could approve guidelines for Customs and Excise alone and draft guidelines were submitted for their consideration on 28 June.

7. In the event, the Law Officers have indicated that they are unable to agree to the publication of guidelines solely in a Customs and Excise context either. They remain of the opinion that they should continue to review each case on its merits until any legislation is in place. We very much regret this decision and, indeed, question its logic, as once legislation is in place Customs will no longer be required to submit individual cases. Given this, it is hard to understand why the Law Officers could not agree to the issue of guidelines as a holding operation pending legislation, to which they do agree. Nevertheless, and given the likely timescale, we see little point in going back to the Law Officers to ask them to reconsider a decision which they are fully entitled to have taken.

The Need for Legislation

8. Without published guidelines we see a greater urgency to introduce legislation in next year's Finance Bill. The duties and taxes that Customs administer, are all governed by European Law, and on the particular issue of refund of overpaid taxes and duties there have been a significant number of European Court cases. There are cases before the UK courts which are very likely to be referred to the European Court. Without, at least, public guidelines, but preferably legislation to this effect, it is possible that even where unjust enrichment could be demonstrated, the United Kingdom mistake of law defence would not be acceptable to the European Court, which would find in favour of the appellant. At best we would be heavily criticised by the Court on the first occasion we used this defence, so making legislation almost inevitable. The cost of our losing in the European Court would be heavy. The tax involved in the Fine Art Developments case is some £1.4m, with similar cases waiting in the wings at a total cost of £10m plus.

9. On the domestic front, legislation is highly desirable to meet the criticism of the Courts and representations made by important trade and professional bodies. We are in the absurd position that we operate under a convention (that we consult the Law Officers)

which is confidential and therefore cannot be used by us in trying to head off litigation, but is nevertheless known to many outside tax experts who are ex-members of the Department. Explicit legislation should save both Customs and the taxpayers from costly litigation in the future.

The form of any Legislation

10. Our immediate concern is to provide in primary legislation for the repayment of overpaid taxes and excise duties, subject only to an override in cases where such refunds would result in an unjust enrichment. This legislation would, we believe, be by way of a free standing clause in the Finance Bill. However, the question of mistake of law and unjust enrichment is inextricably bound up with the general correction of errors, both over and underpayments. It was on this point that Lord Justice Glidewell, in the case of Fine Art Developments, commented that there should be a statutory mechanism. At present we provide for the adjustment of errors in our Public Notice 700 - The VAT General Guide - but this is clearly inadequate and we are now looking to making regulations governing the correction of errors, the issue of credit notes and unjust enrichment. These regulations will subsume all questions concerning mistake of law and detail how claims to refund of overpaid tax are to be made and also how underpayments of tax are to be adjusted. Our lawyers believe that the existing vires to make such regulations is already provided in Schedule 7 of the Value Added Tax Act 1983; however, they will be seeking the advice of Parliamentary Counsel to ensure that this is the case. In particular, we intend to provide for a time limit of 6 years within which corrections may be made. Such a time limit would mirror our existing powers to assess for arrears of tax.

11. At this time it is not possible to give a sensible estimate of the Finance Bill space required, but we would think not more than half a page.

Commentary

12. To provide in primary legislation for the right to refund of overpaid taxes and duties should be welcomed by taxpayers generally and professional and trade bodies in particular. No doubt the override for unjust enrichment will receive criticism, but it is eminently sensible and reasonable where such overpayments have been borne by the final consumer, who has not received credit for such overpayments. It is also in accord with the case law of the European Court. Regulations on the general correction of errors in accounting for and paying tax should also be welcomed, as they will provide certainty for taxpayers and reduce the number of appeals and disputes. These regulations will not be laid and made

until Royal Assent is given to next year's Finance Act. We would, however, hope to expose draft regulations together with a News Release next spring. This will allow for proper consultation with all interested persons and be in line with the Government's commitment towards deregulation and removing burdens from business. We would also suggest that it might be appropriate, and once you have agreed, to announce by News Release, the Government's intention to legislate for the right to recover overpaid VAT and excise duty. This News Release would also explain that detailed regulations would be made on the general correction of errors and that draft regulations would be exposed in the spring of next year. Any News Release would, of course, be cleared with you in the usual way once Parliamentary Counsel has advised on the form the legislation should take.

Conclusion

13. We should be grateful for your approval for us to instruct Parliamentary Counsel to draft the necessary legislation and to know whether you are content in principle for the publication of a News Release announcing the Government's intention. We shall be happy to discuss if you wish.

ph =

P JEFFERSON SMITH



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref

Your ref

✓
13

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

EST

Nigel Lawson

ECONOMIC SECRETARY	
REC'D	09 SEP 1988
TO	Mr. Michie
CCP	PS/CHR PS/EST
TO	PS/FST PS/ENG
	Sir P Middleton
	Mr Scholer

12 SEP 1988

Mr Gilhooly
Mr Revolta
PS/cte

BUDGET 1989: HACKNEY TAX CLASS VEHICLE EXCISE DUTY

I indicated during the course of our correspondence on the 1988 motoring taxation issues that I saw a case for a thorough review of the "Hackney" class, which was unique in falling short of track costs. Your letter to me of 22 February asked if that could be pursued.

The hackney taxation class comprises taxis buses and coaches. The class as a whole came to track cost coverage for the first time this year as a result of the fuel duty rises in the last Budget. Fuel duty has a disproportionate impact on this class because VED accounts for only 3% of revenue. But within the class buses and coaches will still fall short of their estimated track costs by £15 million in 1988/89.

VED rates for the class are currently determined by seating capacity. There are no fewer than sixty rates of duty starting at £52.50 for buses and taxis with up to twenty seats. For goods vehicles we tax by reference to those factors which directly determine the amount of wear and tear they generate - gross vehicle weight (gvw) (in two tonne bands) and the number of axles it is spread over. There are a large number of rates, but two tonnes affects the amount of wear on the road. The weight of hackneys varies much less. The gvw system is logical and equitable, is accepted by the trade and has currency within the European Community, where it has been accepted as the basis for a harmonised taxation structure for goods vehicles. Indeed there are early indications that the same system is being considered by the Commission as a basis for taxing buses and coaches. To apply this gvw system to hackneys would produce eight weight bands for buses and coaches.

CONFIDENTIAL

The present position is unsatisfactory in several respects: the structure ignores the essential factors of weight and axle numbers which determine the track costs of these vehicles. the rates are inadequate to deliver a total motoring tax revenue to meet the estimated present level of track costs and there is concern in some quarters that taxation below track cost levels gives express coaches in particular a competitive edge over BR services. Robert Adley has highlighted the fact that a coach needs to have 66 seats before it pays more VED than a private car.

The obvious way of solving the first of these problems is by moving to gvw taxation for hackneys. However, this requires a clear and unambiguous statement of the vehicle's weight. HGVs bear an official plate showing this: there is no comparable plating system for hackneys. That would be expensive and take a long time to introduce. Such a system would also require the collection of further statistics. I am not yet convinced these measures are necessary: officials are working on them further. The other problems of the current hackney system can be solved quickly. The new bottom line for the Hackneys must be track cost coverage. HGVs currently carry a substantial excess of taxes over costs, which we attribute to unquantifiable social and environmental costs, but we have no such policy for hackneys.

I propose therefore to bring all the hackneys to track cost coverage and at the same time to reduce the number of tax bands in the class to something like the number we would have under a gvw taxation regime. This will rectify the primary deficiency by bringing the class as a whole, and buses and coaches in particular, to track cost coverage. It seems to me to be important that we show that each band in the class covers its allocated costs.

In practice some rates will produce a small excess over track costs. That is because they are dictated more by comparison than by track cost calculation. All hackneys under twenty seats pay £52.50 at present. I intend that taxis should pay £100, the same as the smallest commercial vehicles and minibuses (9-16 seats) pay £130, the same as the goods vehicles from which they are derived.

In all I am proposing five tax bands. The highest rate of VED will be £490. Express coaches will fall in a band that includes urban service buses and pay £320. It has not proved possible to find any single physical characteristic by which to identify express coaches. In practice most operators have a fleet of vehicles which is pressed into whatever service their operational pressures require. Given that that band will be covering track costs we shall be able to say quite categorically that express coaches that run more on motorways, which have lower unit maintenance costs, will be more than covering their costs. Unless operators are prepared to dedicate vehicles to use only on such services and we can come up with a way of reflecting that in VED rates I think we shall have to accept an element of rough justice in the rates.

CONFIDENTIAL

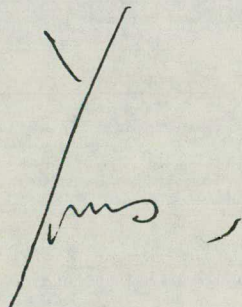
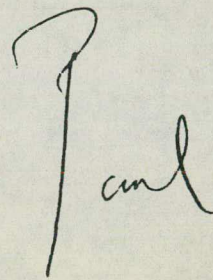
CONFIDENTIAL

What I propose will produce an additional £20 million in revenue and add no more than 1% to operators' costs. Taxi operators for example will find costs rise by ½p per mile against fares of 80p per mile. Nevertheless they will be seen as hefty increases because the low proportion of motoring taxation contributed by VED meant the old rates were very low. The new rates compare with the old ones as follows:

No of seats	old rate	new rate	maximum increase
under 9	£52.50	£100	£47.50
9-16	£52.50	£130	£77.50
17-35	£52.50 - £68.25	£210	£157.50
36-60	£69.30 - £94.50	£320	£250.70
Over 60	£95.55.....	£490	£394.45

These rates reflect our current, published, estimates of the track costs of hackneys. Recent information leads us to suspect that those estimates may be too low. But there is insufficient time to set up the very extensive and costly survey that would be necessary to provide better information before the Budget was settled. I have therefore set in hand some rather less sensitive, but speedier work which I hope will be concluded around the turn of the year. If it proves that we are close to the right figures then I hope you will be able to accommodate some adjustments to these rates (up or down).

If however it proves that the track cost deficit is substantially higher then I would propose to go ahead with these rates, which are about the most I think we can ask the industry to absorb in one year, and use the following year to improve our understanding of hackney track costs. We adopted the same principle last year with the special types, where we deferred the second stage increase to allow time for further study and for the industry to adjust. I hope you will agree that a similar approach, should it prove necessary, would be appropriate in this case.

PAUL CHANNON

Table 9 Road taxation revenue and roads costs in 1987/88:
by vehicle class

Thousand/£ million at 1987/88 prices/ratio

Vehicle class	Number of vehicles thousand	Road taxation revenue and road costs (£ million at 1987/88 prices ¹)			Road costs	Taxes less costs	Taxes to costs ratio
		Road taxes					
		Fuel tax	VED	Total			
Cars, light vans and taxis	19608	5475	2075	7550 ²	2335	5215	3.2:1
Motorcycles	1107	40	15	60	25	35	2.3:1
Buses and coaches	72	180	5	185 ³	215	-30	0.9:1
Goods vehicles over 1.525 tonnes unladen:							
Not over 3.5 tonnes gvw and non-plateable vehicles	143	50	20	70	25	45	2.7:1
Over 3.5 tonnes gvw	441	960	440	1405	1095	310	1.3:1
Other vehicles ⁴	1185	105	10	115	55	65	2.2:1
All vehicles	22556	6820	2570	9385	3750⁵	5640	2.5:1

1. Rounded to the nearest five.

2. Excludes car tax, expected to raise £1100m in 1987/88.

3. Fuel tax rebate (£130m) not deducted.

4. Haulage, machines, 3-wheeled motor vehicles, crown, disabled and other vehicles exempt from VED. Previously, other vehicles were included with the main classes.

5. Excludes £306 million allocated to pedestrians.

Rates of Vehicle Excise Duty

V149

Department of Transport

Rev. March 88

The following tables give the rates of vehicle excise duty which have effect from **16 March 1988**. The notes on the vehicle licence application forms explain how and where to apply. Please read them carefully.

1. PRIVATE / LIGHT GOODS VEHICLES (ie. goods vehicles not over 1,525 kgs unladen)

	12 month rate £	6 month rate £
Private Vehicles, Light Vans, Estate Cars etc.	100.00	55.00
Vehicles constructed before 1.1.47	60.00	33.00
Light Goods Farmers	75.00	41.25
Light Goods Showman's	75.00	41.25

2. BICYCLES, TRICYCLES, PEDESTRIAN CONTROLLED VEHICLES (not over 450 kgs)

	Over	Not Over	12 month rate £	6 month rate £
Motorcycles (with or without sidecar)	-	150cc	10.00	-
	150cc	250cc	20.00	-
	# 250cc	-	40.00	22.00
Tricycles	-	150cc	10.00	-
	150cc	-	40.00	22.00
Pedestrian Controlled Vehicles (other than mowing machines)				
3 Wheelers	-	150cc	10.00	-
3 Wheelers	150cc	-	20.00	-
More than 3 wheels			20.00	-
# If constructed before 1.1.33 and weighs not more than 101.6 kgs the rate is £20.00.				

3. HACKNEY CARRIAGES

Seats Up to	12 month rate £	6 month rate £	Seats Up to	12 month rate £	6 month rate £	Seats Up to	12 month rate £	6 month rate £	Seats Up to	12 month rate £	6 month rate £
20	52.50	28.85	37	70.35	38.70	54	88.20	48.50	71	106.05	58.35
21	53.55	29.45	38	71.40	39.25	55	89.25	49.10	72	107.10	58.90
22	54.60	30.05	39	72.45	39.85	56	90.30	49.65	73	108.15	59.50
23	55.65	30.60	40	73.50	40.40	57	91.35	50.25	74	109.20	60.05
24	56.70	31.20	41	74.55	41.00	58	92.40	50.80	75	110.25	60.65
25	57.75	31.75	42	75.60	41.60	59	93.45	51.40	76	111.30	61.20
26	58.80	32.35	43	76.65	42.15	60	94.50	51.95	77	112.35	61.80
27	59.85	32.90	44	77.70	42.75	61	95.55	52.55	78	113.40	62.35
28	60.90	33.50	45	78.75	43.30	62	96.60	53.15	79	114.45	62.95
29	61.95	34.05	46	79.80	43.90	63	97.65	53.70	80	115.50	63.50
30	63.00	34.65	47	80.85	44.45	64	98.70	54.30			
31	64.05	35.25	48	81.90	45.05	65	99.75	54.85			
32	65.10	35.80	49	82.95	45.60	66	100.80	55.45	For each additional seat	1.05	.
33	66.15	36.40	50	84.00	46.20	67	101.85	56.00			
34	67.20	36.95	51	85.05	46.80	68	102.90	56.60			
35	68.25	37.55	52	86.10	47.35	69	103.95	57.15			
36	69.30	38.10	53	87.15	47.95	70	105.00	57.75			

4. GENERAL HAULAGE VEHICLES

Unladen Weight Up to but not over	12 month rate £	6 month rate £
2 tons (2,032.1 kgs)	179.00	98.45
4 tons (4,064.2 kgs)	322.00	177.10
6 tons (6,096.3 kgs)	465.00	255.75
7.25 tons (7,366.4 kgs)	608.00	334.40
8 tons (8,128.4 kgs)	743.00	408.65
9 tons (9,144.5 kgs)	869.00	477.95
10 tons (10,160.5 kgs)	995.00	547.25
11 tons (11,176.5 kgs)	1,138.00	625.90
For each additional ton or part of a ton (ton = 1,016.1 kgs)	142.00	.

5. SHOWMAN'S HAULAGE VEHICLES

Unladen Weight Up to but not over	12 month rate £	6 month rate £
7.25 tons (7,366.4 kgs)	151.00	83.05
8 tons (8,128.4 kgs)	180.00	99.00
10 tons (10,160.5 kgs)	212.00	116.60
11 tons (11,176.5 kgs)	244.50	134.45
12 tons (12,192.6 kgs)	277.00	152.35
13 tons (13,208.6 kgs)	309.50	170.20
14 tons (14,224.7 kgs)	342.00	188.10
15 tons (15,240.7 kgs)	374.50	205.95
For each additional ton or part of a ton (ton = 1,016.1 kgs)	32.50	.

* The six month rate of duty is eleven - twentieths of the corresponding annual rate, rounded up or down to the nearest 5p, 2.5p being rounded down.

6. AGRICULTURAL MACHINES, WORKS TRUCKS ETC.

	12 month rate £
Agricultural Machines (Locomotive Ploughing Engines, Tractors, Agricultural Tractors or other Agricultural Engines)	16.00
Fishermen's Tractors	16.00
Digging Machines	16.00
Mobile Cranes	16.00
Works Trucks	16.00

7. TRADE LICENCES

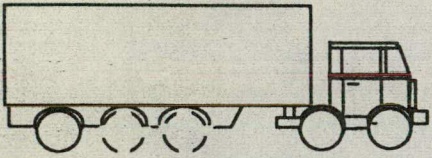
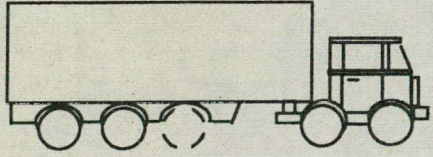
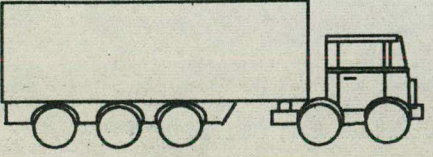
	12 month rate £	6 month rate £
Trade Licences available for all vehicles	85.00	46.75
Trade Licences available only for:		
Bicycles	17.00	9.35
Tricycles	17.00	9.35
Pedestrian Controlled Vehicles	17.00	9.35

- THE TERM "PLATEABLE" IS NOT APPLICABLE IN NORTHERN IRELAND

8. PLATEABLE RIGID AND PLATEABLE ARTICULATED VEHICLES not over 12,000 kgs gross

Gross Weight / Train Weight (kgs)		Taxation Class					
		HGV		HGV Farmers		HGV Showman's	
Over	Not Over	12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £
-	7,500	130.00	71.50	90.00	49.50	90.00	49.50
7,500	12,000	290.00	159.50	175.00	96.25	90.00	49.50

9. PLATEABLE ARTICULATED GOODS VEHICLES over 12,000 kgs gross

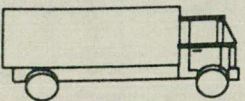
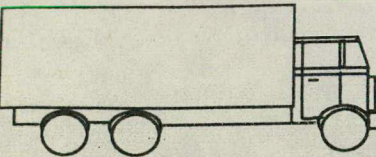
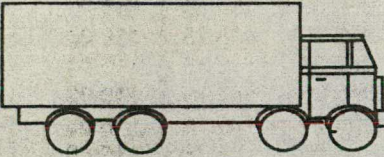
Type of Vehicle	Gross Train Weight (kgs)		Taxation Class					
			HGV		HGV Farmers		HGV Showman's	
	Over	Not Over	12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £
TABLE A 2 axled tractive unit used with any semi - trailer(s) (1,2,3 or more axles) 	12,000	14,000	470.00	258.50	280.00	154.00	120.00	66.00
	14,000	16,000	590.00	324.50	355.00	195.25	150.00	82.50
	16,000	18,000	690.00	379.50	415.00	228.25	175.00	96.25
	18,000	20,000	810.00	445.50	485.00	266.75	205.00	112.75
	20,000	22,000	940.00	517.00	565.00	310.75	235.00	129.25
	22,000	23,000	1,000.00	550.00	600.00	330.00	250.00	137.50
	23,000	25,000	1,150.00	632.50	690.00	379.50	290.00	159.50
	25,000	26,000	1,150.00	632.50	690.00	379.50	290.00	159.50
	26,000	28,000	1,150.00	632.50	690.00	379.50	290.00	159.50
	28,000	29,000	1,210.00	665.50	725.00	398.75	305.00	167.75
	29,000	31,000	1,680.00	924.00	1,010.00	555.50	420.00	231.00
	31,000	33,000	2,450.00	1,347.50	1,470.00	808.50	615.00	338.25
	33,000	34,000	2,450.00	1,347.50	1,470.00	808.50	615.00	338.25
	34,000	36,000	2,750.00	1,512.50	1,650.00	907.50	690.00	379.50
36,000	38,000	3,100.00	1,705.00	1,860.00	1,023.00	775.00	426.25	
TABLE B 2 axled tractive unit used with 2 or more axled semi - trailer(s) only * 	12,000	14,000	420.00	231.00	250.00	137.50	105.00	57.75
	14,000	16,000	440.00	242.00	265.00	145.75	110.00	60.50
	16,000	18,000	440.00	242.00	265.00	145.75	110.00	60.50
	18,000	20,000	440.00	242.00	265.00	145.75	110.00	60.50
	20,000	22,000	550.00	302.50	330.00	181.50	140.00	77.00
	22,000	23,000	620.00	341.00	370.00	203.50	155.00	85.25
	23,000	25,000	780.00	429.00	470.00	258.50	195.00	107.25
	25,000	26,000	870.00	478.50	520.00	286.00	220.00	121.00
	26,000	28,000	1,090.00	599.50	655.00	360.25	275.00	151.25
	28,000	29,000	Concessionary rates do not apply at these weights. Please see Table A above.					
	29,000	31,000						
	31,000	33,000						
	33,000	34,000						
	34,000	36,000						
36,000	38,000							
TABLE C 2 axled tractive unit used with 3 or more axled semi - trailer(s) only * 	12,000	14,000	420.00	231.00	250.00	137.50	105.00	57.75
	14,000	16,000	440.00	242.00	265.00	145.75	110.00	60.50
	16,000	18,000	440.00	242.00	265.00	145.75	110.00	60.50
	18,000	20,000	440.00	242.00	265.00	145.75	110.00	60.50
	20,000	22,000	440.00	242.00	265.00	145.75	110.00	60.50
	22,000	23,000	440.00	242.00	265.00	145.75	110.00	60.50
	23,000	25,000	440.00	242.00	265.00	145.75	110.00	60.50
	25,000	26,000	530.00	291.50	320.00	176.00	135.00	74.25
	26,000	28,000	720.00	396.00	430.00	236.50	180.00	99.00
	28,000	29,000	820.00	451.00	490.00	269.50	205.00	112.75
	29,000	31,000	1,050.00	577.50	630.00	346.50	265.00	145.75
	31,000	33,000	1,680.00#	924.00#	1,010.00#	555.50#	420.00#	231.00#
	33,000	34,000	2,250.00#	1,237.50#	1,350.00#	742.50#	565.00#	310.75#
	34,000	36,000	Concessionary rates do not apply at these weights. Please see Table A above.					
36,000	38,000							

CONCESSIONARY RATES

* Licences taken out at these rates do not permit the use of semi - trailers with fewer axles.
 It is an offence to use a vehicle with a licence at the wrong rate of duty.
 # At this rate the tractive unit may also be used with one - axle semi - trailers provided it does not exceed the appropriate Construction and Use weight limits.

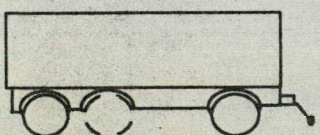
THE TERM "PLATEABLE" IS NOT APPLICABLE IN NORTHERN IRELAND

12. PLATEABLE RIGID GOODS VEHICLES over 12,000 kgs gross
(Vehicles used with plateable trailers may be subject to additional trailer duty, see Table 13 below)

Type of Vehicle	Gross Weight (kgs)		Taxation Class					
			HGV		HGV Farmers		HGV Showman's	
	Over	Not Over	12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £
Rigid vehicle with 2 axles 	12,000	13,000	410.00	225.50	245.00	134.75	105.00	57.75
	13,000	14,000	570.00	313.50	340.00	187.00	145.00	79.75
	14,000	15,000	740.00	407.00	445.00	244.75	185.00	101.75
	15,000	17,000	1,130.00	621.50	680.00	374.00	285.00	156.75
Rigid vehicle with 3 axles 	12,000	13,000	320.00	176.00	190.00	104.50	90.00	49.50
	13,000	14,000	340.00	187.00	205.00	112.75	90.00	49.50
	14,000	15,000	340.00	187.00	205.00	112.75	90.00	49.50
	15,000	17,000	340.00	187.00	205.00	112.75	90.00	49.50
	17,000	19,000	540.00	297.00	325.00	178.75	135.00	74.25
	19,000	21,000	730.00	401.50	440.00	242.00	185.00	101.75
	21,000	23,000	1,000.00	550.00	600.00	330.00	250.00	137.50
23,000	24,390	1,780.00	979.00	1,070.00	588.50	445.00	244.75	
Rigid vehicle with 4 or more axles 	12,000	13,000	320.00	176.00	190.00	104.50	90.00	49.50
	13,000	14,000	340.00	187.00	205.00	112.75	90.00	49.50
	14,000	15,000	340.00	187.00	205.00	112.75	90.00	49.50
	15,000	17,000	340.00	187.00	205.00	112.75	90.00	49.50
	17,000	19,000	340.00	187.00	205.00	112.75	90.00	49.50
	19,000	21,000	340.00	187.00	205.00	112.75	90.00	49.50
	21,000	23,000	490.00	269.50	295.00	162.25	125.00	68.75
	23,000	25,000	690.00	379.50	415.00	228.25	175.00	96.25
	25,000	27,000	1,110.00	610.50	665.00	365.75	280.00	154.00
	27,000	29,000	1,630.00	896.50	980.00	539.00	410.00	225.50
29,000	30,490	2,680.00	1,474.00	1,610.00	885.50	670.00	368.50	

13. TRAILER DUTY

Where the drawing vehicle has a plated weight over 12,000 kgs gross AND draws laden plateable trailers over 4,000 kgs gross weight additional trailer duty is payable. See table below.

	Gross Trailer Weight (kgs)		Taxation Class					
			Trailer HGV		Trailer HGV Farmers		Trailer HGV Showman's	
	Over	Not Over	12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £
4,000	8,000	80.00	44.00	80.00	44.00	80.00	44.00	
8,000	10,000	100.00	55.00	100.00	55.00	80.00	44.00	
10,000	12,000	130.00	71.50	130.00	71.50	80.00	44.00	
12,000	14,000	180.00	99.00	180.00	99.00	80.00	44.00	
14,000	-	355.00	195.25	355.00	195.25	80.00	44.00	

EXAMPLE: A 2 - axled vehicle plated at 16,260 kgs which draws trailers plated at 8,130 kgs would pay £1,130.00 (Table 12) plus £100.00 (Table 13) annual rate.

NOTE: Vehicles which draw trailers below 4,000 kgs do not come within a trailer taxation class and no additional trailer duty is payable on them.

14. NON - PLATEABLE AND "SPECIAL TYPES" VEHICLES (GREAT BRITAIN)

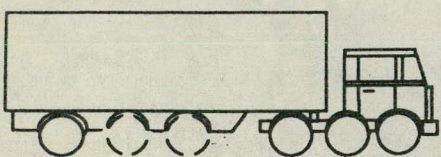
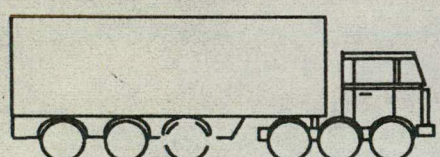
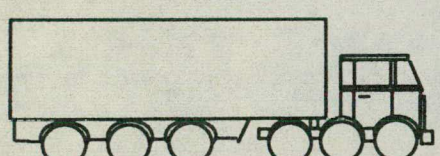
"SPECIAL TYPES" AND VEHICLES NOT SUBJECT TO TESTING (NORTHERN IRELAND)

GREAT BRITAIN Goods vehicles over 1,525 kgs unladen weight which (a) do not fall within a class to which the Plating and Testing Regulations apply eg. dual purpose vehicles, tower wagons, or (b) do not comply with the Construction and Use Regulations but are authorised for road use under Section 42 of the Road Traffic Act 1972 ie. "Special Types" vehicles.	Taxation Class					
	Restricted HGV		Restricted HGV Farmers		Restricted HGV Showman's	
	12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £
NORTHERN IRELAND Goods vehicles over 1,525 kgs unladen weight which (a) do not fall within a class to which the Goods Vehicles (Certification) Regulations (Northern Ireland) apply eg. tower wagons, or (b) do not comply with the Construction and Use Regulations but are authorised for road use under Article 29 (3) of the Road Traffic (Northern Ireland) Order 1981 ie. "Special Types" vehicles.	130.00	71.50	90.00	49.50	90.00	49.50

For information on all other rates please consult any Vehicle Registration Office.

THE "PLATEABLE" IS NOT APPLICABLE IN NORTHERN IRELAND

10. PLATEABLE ARTICULATED GOODS VEHICLES over 12,000 kgs gross

Type of Vehicle	Gross Train Weight (kgs)		Taxation Class						
	Over	Not Over	HGV		HGV Farmers		HGV Showman's		
			12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £	
TABLE D 3 or more axled tractive unit used with any semi - trailer(s) (1,2,3 or more axles) 	12,000	14,000	420.00	231.00	250.00	137.50	105.00	57.75	
	14,000	16,000	440.00	242.00	265.00	145.75	110.00	60.50	
	16,000	18,000	440.00	242.00	265.00	145.75	110.00	60.50	
	18,000	20,000	440.00	242.00	265.00	145.75	110.00	60.50	
	20,000	22,000	550.00	302.50	330.00	181.50	140.00	77.00	
	22,000	23,000	620.00	341.00	370.00	203.50	155.00	85.25	
	23,000	25,000	780.00	429.00	470.00	258.50	195.00	107.25	
	25,000	26,000	870.00	478.50	520.00	286.00	220.00	121.00	
	26,000	28,000	1,090.00	599.50	655.00	360.25	275.00	151.25	
	28,000	29,000	1,210.00	665.50	725.00	398.75	305.00	167.75	
	29,000	31,000	1,680.00	924.00	1,010.00	555.50	420.00	231.00	
	31,000	33,000	2,450.00	1,347.50	1,470.00	808.50	615.00	338.25	
	33,000	34,000	2,450.00	1,347.50	1,470.00	808.50	615.00	338.25	
	34,000	36,000	2,450.00	1,347.50	1,470.00	808.50	615.00	338.25	
36,000	38,000	2,730.00	1,501.50	1,640.00	902.00	685.00	376.75		
TABLE E 3 or more axled tractive unit used with 2 or more axled semi - trailer(s) only * 	12,000	14,000	420.00	231.00	250.00	137.50	105.00	57.75	
	14,000	16,000	440.00	242.00	265.00	145.75	110.00	60.50	
	16,000	18,000	440.00	242.00	265.00	145.75	110.00	60.50	
	18,000	20,000	440.00	242.00	265.00	145.75	110.00	60.50	
	20,000	22,000	440.00	242.00	265.00	145.75	110.00	60.50	
	22,000	23,000	440.00	242.00	265.00	145.75	110.00	60.50	
	23,000	25,000	440.00	242.00	265.00	145.75	110.00	60.50	
	25,000	26,000	440.00	242.00	265.00	145.75	110.00	60.50	
	26,000	28,000	440.00	242.00	265.00	145.75	110.00	60.50	
	28,000	29,000	520.00	286.00	310.00	170.50	130.00	71.50	
	29,000	31,000	640.00	352.00	385.00	211.75	160.00	88.00	
	31,000	33,000	970.00	533.50	580.00	319.00	245.00	134.75	
	33,000	34,000	1,420.00	781.00	850.00	467.50	355.00	195.25	
	34,000	36,000	2,030.00	1,116.50	1,220.00	671.00	510.00	280.50	
36,000	38,000	Concessionary rates do not apply at these weights. See Table D above.							
TABLE F 3 or more axled tractive unit used with 3 or more axled semi - trailer(s) only * 	12,000	14,000	420.00	231.00	250.00	137.50	105.00	57.75	
	14,000	16,000	440.00	242.00	265.00	145.75	110.00	60.50	
	16,000	18,000	440.00	242.00	265.00	145.75	110.00	60.50	
	18,000	20,000	440.00	242.00	265.00	145.75	110.00	60.50	
	20,000	22,000	440.00	242.00	265.00	145.75	110.00	60.50	
	22,000	23,000	440.00	242.00	265.00	145.75	110.00	60.50	
	23,000	25,000	440.00	242.00	265.00	145.75	110.00	60.50	
	25,000	26,000	440.00	242.00	265.00	145.75	110.00	60.50	
	26,000	28,000	440.00	242.00	265.00	145.75	110.00	60.50	
	28,000	29,000	440.00	242.00	265.00	145.75	110.00	60.50	
	29,000	31,000	440.00	242.00	265.00	145.75	110.00	60.50	
	31,000	33,000	440.00	242.00	265.00	145.75	110.00	60.50	
	33,000	34,000	550.00	302.50	330.00	181.50	140.00	77.00	
	34,000	36,000	830.00	456.50	500.00	275.00	210.00	115.50	
36,000	38,000	1,240.00	682.00	745.00	409.75	310.00	170.50		

* Licences taken out at these rates do not permit the use of semi - trailers with fewer axles.
It is an offence to use a vehicle with a licence at the wrong rate of duty.

11. RECOVERY VEHICLES

Recovery Vehicles	12 month rate £	6 month rate £
		50.00

CONFIDENTIAL

CH/EXCHEQUER	
REC.	01SEP1988
ACTN	CST
COPIES TO	

✓ 2/9



MP

10 DOWNING STREET

LONDON SW1A 2AA

31 August 1988

From the Private Secretary

✓
✓

CAR REGISTRATION LETTER

The Prime Minister has noted with some concern the marked impact on the profile of new car registrations - and possibly of car imports - once again brought about by the introduction of a new registration letter on 1 August. She would be grateful if your Secretary of State could let her have a note on alternative registration possibilities which would avoid, or at any rate minimise, this annual peaking effect either on 1 August or at any other point during the year. It would be helpful to have this material by the end of September.

I am copying this letter to Alex Allan (H.M. Treasury).

PAUL GRAY

Neil Hoyle, Esq.,
Department of Transport

CONFIDENTIAL

3/110
01 SEP 1988

CST



10 DOWNING STREET

LONDON SW1A 2AA

Mr. M. M. Lach

Act 1

31 August 1988

From the Private Secretary

Mr. B. B. B. B.

AC/11

CAR REGISTRATION LETTER

The Prime Minister has noted with some concern the marked impact on the profile of new car registrations - and possibly of car imports - once again brought about by the introduction of a new registration letter on 1 August. She would be grateful if your Secretary of State could let her have a note on alternative registration possibilities which would avoid, or at any rate minimise, this annual peaking effect either on 1 August or at any other point during the year. It would be helpful to have this material by the end of September.

I am copying this letter to Alex Allan (H.M. Treasury).

SECRETARY
GENERAL

PAUL GRAY

Mr REVOLTA

Mr ESTER

Mr PHILLIPS, Mrs CASE

Mr TARBOLL, Mr A Williams

Mr CASE, PS/CIE

Neil Hoyle, Esq.,
Department of Transport

CONFIDENTIAL

Record August car sales increase deficit worries

NEW CAR sales hit a record of more than 477,000 last month as a massive surge in imported models helped raise further worries about Britain's burgeoning trade deficit.

The rush to buy F-registration cars in August, led by private customers, had already made it certain to be a record month. But the size of the market and the share taken by foreign-built cars were even higher than industry estimates.

Showroom sales were 17 per cent up on August last year — the previous record month — but six in 10 cars bought were foreign, raising import penetration from 55 per cent to 61 per cent.

The British motor industry's trade deficit this year is already forecast to top last year's record of £4bn. The continuing strength of car imports further confirms those estimates.

The August figures came as City analysts Goldman Sachs issued a fresh warning on the size of Britain's current account deficit and the CBI director-general, John Banham, cautioned against a further rise in interest rates to choke off the consumer demand reflected in the record car sales.

By Michael Harrison and Steve Levinson

Simon Foster, director of the Society of Motor Manufacturers and Traders, sought to dampen concern about the level of imports by pointing to the amount of British components they contained and suggesting that the import figure would ease to 55 per cent over the year.

However, the underlying trend is not encouraging. In the first eight months of the year, 925,000 foreign cars were sold in the UK compared with 750,000 in the same period last year. This represents an increase in import penetration from 51 per cent to 56.5 per cent and nearly £6.5bn on Britain's import bill.

Although Ford and Vauxhall have increased total UK sales this year, both the number and proportion of cars built at their British plants is sliding. Between January and August last year 70 per cent of the cars sold by Ford in Britain were UK-built. Over the same period this year that figure has fallen to 55 per cent with only 244,000 out of 435,000 cars manufactured in the UK.

It is this surge in "tied imports", helped on by the strength of the pound against the mark, which mainly explains the strength of foreign car sales.

The SMMT conceded that an "especially high" foreign sales figure last month is explained by the fact that the market is dominated by private buyers who prefer imported cars.

New car sales in the first eight months, at 1,635,638, are up 12.1 per cent over the same period. If that increase is maintained to the end of the year, sales will reach a record for the fourth consecutive year of 2.2 million.

Ford remained the market leader both in August and for the year so far with a 26.6 per cent share. Although Rover's share in the first eight months dipped slightly to 15.2 per cent, it has sold 23,000 more cars than in the same period last year. Its share in August was 14.8 per cent.

Mr Banham said the welter of comment about the recent trade figures appeared to ignore good news on output, productivity, ex-

ports, investment and earnings.

"Loose talk costs jobs; self-fulfilling prophecies of further interest rate rises are a serious threat to the era of investment on which future competitiveness depends."

Speaking last night in Oxford, he said further rises in interest rates were unnecessary, and measures already taken needed time to work. "They seem already to be having the desired effect in the housing market. Now is the time to let the medicine work, not for yet more temperature-taking and spurious remedies from the economic quacks."

But in a new report today Goldman Sachs warns that the balance of payments deficit is much larger than anyone had previously imagined. "No G7 (Group of Seven major industrial nations) economy has been able to run current account deficits of 3 per cent or more of gross domestic product for very long without facing severe exchange rate problems."

Goldman Sachs says there is no sign yet of a slowdown in economic activity and forecasts a current account deficit of £13.5bn this year and £15.5bn next.

CONFIDENTIAL

mp



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

Paul Gray Esq
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

✓

CH/EXCHEQUER	
REC.	21 SEP 1988
ACTION	CST
COPIES TO	

✓ 21/9

Dear Paul

20 SEP 1988

CAR REGISTRATION LETTER

Thank you for your letter of 31 August about the impact of the August change in the vehicle registration year letter.

Here is the note which the Prime Minister asked for on the possibility of changing to an alternative system which might reduce the annual August peak of registrations.

I am copying this to Alex Allan at Treasury, and, with your letter, to Neil Thornton at DTI and Philip Mawer at the Home Office.

*Yours
R J*

R J GRIFFINS
Private Secretary

CONFIDENTIAL

RECEIVED
1 SEP 1988
SECRETARY OF STATE
TRANSPORT

CONFIDENTIAL



10 DOWNING STREET
LONDON SW1A 2AA

SofS to see.

Adv please

Mr Denton
2/9
for SofS

From the Private Secretary

31 August 1988

Dear Neil,

cc PS/SofS
PS/Mr Bottomley
PS/Sir Alan Bailey
Mr Cooper
Mr Wattleby

CAR REGISTRATION LETTER

Miss Samuel
Miss Buchanan
PSO

The Prime Minister has noted with some concern the marked impact on the profile of new car registrations - and possibly of car imports - once again brought about by the introduction of a new registration letter on 1 August. She would be grateful if your Secretary of State could let her have a note on alternative registration possibilities which would avoid, or at any rate minimise, this annual peaking effect either on 1 August or at any other point during the year. It would be helpful to have this material by the end of September.

I am copying this letter to Alex Allan (H.M. Treasury).

Yours sincerely,
P.G.

PAUL GRAY

Neil Hoyle, Esq.,
Department of Transport

CONFIDENTIAL



VEHICLE REGISTRATION NUMBERS - THE YEAR IDENTIFIER LETTER

NOTE BY THE SECRETARY OF STATE FOR TRANSPORT

1. The year identifier letter was introduced in 1963 when numbers in the 3 letter 3 number format were running out. It originally changed every January. It gradually began to affect the seasonal pattern of new car sales, and in 1967, at the request of the motor industry, it was moved to August with the intention of stimulating sales in what had traditionally been a slack month, and providing a more even balance of sales between the first and second halves of the year.

2. This worked rather too well. While the half-yearly balance of sales has been consistently well matched, the concentration of registrations in August has steadily grown to the point that since 1983 they have averaged 20% of the annual total, though with no sign of a further upward trend. This has caused difficulties for some sections of the motor industry because of the need to build up stocks in the summer. On the other hand, parts of the industry feel the annual change stimulates demand significantly. In March 1986 the Government agreed to a request from the Society of Motor Manufacturers and Traders to move the date of the change again, to October. The Motor Agents Association expressed strong opposition. The two bodies jointly asked the Department in late 1986 to instigate a full review of the alternatives to the present system.

3. A Consultative Group, led by my Department, was set up to carry out this review. The Home Office and Association of Chief Police Officers were represented, as well as the Department of Trade and Industry and organisations representing all the main interest groups in the motor industry itself. The motoring public was covered by representatives of the AA and RAC.



4. The Group considered in detail a wide range of alternative systems. A public consultation exercise was held during mid-1987, and the Group also heard oral evidence from Rover and Ford, as the two leading domestic vehicle manufacturers.

5. After toying for some time with the idea of a new code added to all registration numbers indicating the month of registration the Group ultimately concluded that there was no alternative system which was preferable to the present one. No member of the Group dissented, though the SMMT representatives were clearly hampered by disagreements within their own membership.

6. The strongest advocates of the existing year letter system were the Police. It is their experience that the year letter sticks in the mind and helps the public recognise and recall vehicle registrations for law enforcement purposes, or at least reduces the number of vehicles that need to be investigated to one year's batch. The vehicle registration system is primarily a law enforcement tool, and any changes that do not have the support of the Police need to be embarked upon with great care. Though the argument that the change of letter stimulates new vehicle sales over the year was agreed to be unprovable, it is still believed in some quarters.

7. After consultations with Douglas Hurd and David Young I concluded in January this year that we should accept the Group's advice and retain the present system. This decision was announced on 3 February; a copy of the Press Notice is enclosed.

8. Once the principle of a year identifier is agreed, the argument moves to the most appropriate month in which to change it. An August change certainly achieves the desired balance of sales between the first and second halves of the year. No alternative commands widespread support.



9. The August peak in the UK market coincides with troughs in other markets, and this tends to operate to the advantage of importers since it enables them to smooth out their production schedules. Except for Rover, the UK volume car manufacturers are also importers, which may explain why Ford, for example, supports the present system. Rover on the other hand does not benefit in this way, and believes it is uniquely disadvantaged by the system.

10. The proportion of imports has tended to be higher in August than over the year as a whole. Provisional figures suggest penetration of 61% this August, compared to a forecast of about 56% for the whole of the year. This probably reflects the tendency of private buyers - who are more prone to buy in August than companies - to be more likely to buy an imported vehicle.

11. It is impossible to give a definitive answer on the basis of the statistics to the question as to whether the current registration system affects the level of import penetration over the year as a whole. What is clear is that other factors are much more important in accounting for the rise in imports which has occurred this year - both earlier in the year and in August itself. DTI say that the prime cause has been the very strong growth of car demand in the UK, which has been twice as fast as in the rest of Europe. This demand growth has more than offset the simultaneous growth in UK car production. Other significant factors have been the Ford strike earlier in the year, and some loss of UK price competitiveness.

12. Unless we are prepared to overrule the strong advice of the Police that there should be a year identifier, we shall have to pick some month. Those consulted would overwhelmingly prefer us to keep August rather than change to another month.

Press Notice No:

60

3 FEBRUARY 1988

VEHICLE REGISTRATION NUMBERS - NO CHANGE

Paul Channon, Secretary of State for Transport, today announced that the present registration numbering system will not be changed. Ministers have accepted the firm recommendation of the review commissioned to look into the system.

In answer to a written Parliamentary Question from Tim Smith MP., Mr Channon said:

"The Consultative Group which was asked to undertake the review has now submitted its Report. The Group examined a wide range of possible systems and conducted a major public consultation exercise. The majority of responses, from a wide variety of interested parties, showed a clear preference for the present system. After considering these responses, the Group has unanimously recommended that the present registration numbering system, with the year prefix letter changing each August, should remain in place. Having carefully considered the Group's Report, I have decided to accept its recommendation, and thus to retain the existing system unchanged.

The Report is to-day being published and I am placing copies in the Library of the House".

Mr Channon added:

"I am glad that the review Group was able to reach a clear verdict on the way forward. I hope that this will now bring to an end the prolonged uncertainty over this issue, and enable all concerned to plan ahead with confidence".

NOTES TO EDITORS

The present registration number format, with a year prefix letter, was introduced in 1983, when all the year suffix letters had been used up. Since then the peak levels of registrations when the year letter changes each August have risen significantly. August new car registrations now account for about 20 per cent of the annual total. This has caused problems, especially for parts of the motor industry faced with building up large stocks in the early summer. Following the industry's failure to agree on an alternative month of change for the year letter, the Government agreed in October 1986 (PN 538) to undertake a more wide-ranging review of possible alternative numbering systems.

After further discussions with the industry, a consultative group, chaired by the Department and including representatives from major industry and road-user organisations and the Police, was set up to carry out the review.

As part of its work, the review group issued last August a public consultation document seeking comments on a range of possible alternatives to the present numbering system (PN 425). The responses - indicating wide support for keeping the existing system - were taken into account by the group in making its recommendation.

Copies of the group's report can be obtained from Ms V Thomas, Room D9S, DVLC, Swansea SA6 7JL, at a cost of £7.00 each (including post and packaging).

Press Enquiries: 0792-782318
Public Enquiries: 0792-72134
Out of Hours: 01-212-7071

401g

CHIEF SECRETARY	
REC.	21 SEP 1988
ACTION	Mr Walker, (CST) Subordinate Mr Anson, Mr Mack, Mr Phillips Mrs Cox, Mr Burgess, Mr Tombs Mr Armstrong, Mr Call

CONFIDENTIAL

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EE



My ref:
Your ref:

Paul Gray Esq
Private Secretary
10 Downing Street ~~PS/CST~~
LONDON
SW1A 2AA

CHIEF SECRETARY	
REC.	21 SEP 1988
ACTION	CST

Dear Paul

20 SEP 1988

CAR REGISTRATION LETTER

Thank you for your letter of 31 August about the impact of the August change in the vehicle registration year letter.

Here is the note which the Prime Minister asked for on the possibility of changing to an alternative system which might reduce the annual August peak of registrations.

I am copying this to Alex Allan at Treasury, and, with your letter, to Neil Thornton at DTI and Philip Mawer at the Home Office.

Yours
R J Griffins

To Roberts

R J GRIFFINS
Private Secretary



VEHICLE REGISTRATION NUMBERS - THE YEAR IDENTIFIER LETTER

NOTE BY THE SECRETARY OF STATE FOR TRANSPORT

1. The year identifier letter was introduced in 1963 when numbers in the 3 letter 3 number format were running out. It originally changed every January. It gradually began to affect the seasonal pattern of new car sales, and in 1967, at the request of the motor industry, it was moved to August with the intention of stimulating sales in what had traditionally been a slack month, and providing a more even balance of sales between the first and second halves of the year.
2. This worked rather too well. While the half-yearly balance of sales has been consistently well matched, the concentration of registrations in August has steadily grown to the point that since 1983 they have averaged 20% of the annual total, though with no sign of a further upward trend. This has caused difficulties for some sections of the motor industry because of the need to build up stocks in the summer. On the other hand, parts of the industry feel the annual change stimulates demand significantly. In March 1986 the Government agreed to a request from the Society of Motor Manufacturers and Traders to move the date of the change again, to October. The Motor Agents Association expressed strong opposition. The two bodies jointly asked the Department in late 1986 to instigate a full review of the alternatives to the present system.
3. A Consultative Group, led by my Department, was set up to carry out this review. The Home Office and Association of Chief Police Officers were represented, as well as the Department of Trade and Industry and organisations representing all the main interest groups in the motor industry itself. The motoring public was covered by representatives of the AA and RAC.



4. The Group considered in detail a wide range of alternative systems. A public consultation exercise was held during mid-1987, and the Group also heard oral evidence from Rover and Ford, as the two leading domestic vehicle manufacturers.

5. After toying for some time with the idea of a new code added to all registration numbers indicating the month of registration the Group ultimately concluded that there was no alternative system which was preferable to the present one. No member of the Group dissented, though the SMMT representatives were clearly hampered by disagreements within their own membership.

6. The strongest advocates of the existing year letter system were the Police. It is their experience that the year letter sticks in the mind and helps the public recognise and recall vehicle registrations for law enforcement purposes, or at least reduces the number of vehicles that need to be investigated to one year's batch. The vehicle registration system is primarily a law enforcement tool, and any changes that do not have the support of the Police need to be embarked upon with great care. Though the argument that the change of letter stimulates new vehicle sales over the year was agreed to be unprovable, it is still believed in some quarters.

7. After consultations with Douglas Hurd and David Young I concluded in January this year that we should accept the Group's advice and retain the present system. This decision was announced on 3 February; a copy of the Press Notice is enclosed.

8. Once the principle of a year identifier is agreed, the argument moves to the most appropriate month in which to change it. An August change certainly achieves the desired balance of sales between the first and second halves of the year. No alternative commands widespread support.



9. The August peak in the UK market coincides with troughs in other markets, and this tends to operate to the advantage of importers since it enables them to smooth out their production schedules. Except for Rover, the UK volume car manufacturers are also importers, which may explain why Ford, for example, supports the present system. Rover on the other hand does not benefit in this way, and believes it is uniquely disadvantaged by the system.

10. The proportion of imports has tended to be higher in August than over the year as a whole. Provisional figures suggest penetration of 61% this August, compared to a forecast of about 56% for the whole of the year. This probably reflects the tendency of private buyers - who are more prone to buy in August than companies - to be more likely to buy an imported vehicle.

11. It is impossible to give a definitive answer on the basis of the statistics to the question as to whether the current registration system affects the level of import penetration over the year as a whole. What is clear is that other factors are much more important in accounting for the rise in imports which has occurred this year - both earlier in the year and in August itself. DTI say that the prime cause has been the very strong growth of car demand in the UK, which has been twice as fast as in the rest of Europe. This demand growth has more than offset the simultaneous growth in UK car production. Other significant factors have been the Ford strike earlier in the year, and some loss of UK price competitiveness.

12. Unless we are prepared to overrule the strong advice of the Police that there should be a year identifier, we shall have to pick some month. Those consulted would overwhelmingly prefer us to keep August rather than change to another month.

Transport

Press Notice No:

60

3 FEBRUARY 1988

VEHICLE REGISTRATION NUMBERS - NO CHANGE

Paul Channon, Secretary of State for Transport, today announced that the present registration numbering system will not be changed. Ministers have accepted the firm recommendation of the review commissioned to look into the system.

In answer to a written Parliamentary Question from Tim Smith MP., Mr Channon said:

"The Consultative Group which was asked to undertake the review has now submitted its Report. The Group examined a wide range of possible systems and conducted a major public consultation exercise. The majority of responses, from a wide variety of interested parties, showed a clear preference for the present system. After considering these responses, the Group has unanimously recommended that the present registration numbering system, with the year prefix letter changing each August, should remain in place. Having carefully considered the Group's Report, I have decided to accept its recommendation, and thus to retain the existing system unchanged.

The Report is to-day being published and I am placing copies in the Library of the House".

Mr Channon added:

"I am glad that the review Group was able to reach a clear verdict on the way forward. I hope that this will now bring to an end the prolonged uncertainty over this issue, and enable all concerned to plan ahead with confidence".

NOTES TO EDITORS

The present registration number format, with a year prefix letter, was introduced in 1983, when all the year suffix letters had been used up. Since then the peak levels of registrations when the year letter changes each August have risen significantly. August new car registrations now account for about 20 per cent of the annual total. This has caused problems, especially for parts of the motor industry faced with building up large stocks in the early summer. Following the industry's failure to agree on an alternative month of change for the year letter, the Government agreed in October 1986 (PN 538) to undertake a more wide-ranging review of possible alternative numbering systems.

After further discussions with the industry, a consultative group, chaired by the Department and including representatives from major industry and road-user organisations and the Police, was set up to carry out the review.

As part of its work, the review group issued last August a public consultation document seeking comments on a range of possible alternatives to the present numbering system (PN 425). The responses - indicating wide support for keeping the existing system - were taken into account by the group in making its recommendation.

Copies of the group's report can be obtained from Ms V Thomas, Room D9S, DVLC, Swansea SA6 7JL, at a cost of £7.00 each (including post and packaging).

Press Enquiries: 0792-782318
Public Enquiries: 0792-72134
Out of Hours: 01-212-7071

C O N F I D E N T I A L

FROM: R G MICHIE
DATE: 26 September 1988

Note at end.

- 1. MR GILHOOLY
- 2. CHANCELLOR

29/9

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Mr Scholar
- Mr Culpin
- Mr Revolta
- Mr Riley
- Mr Macpherson
- PS/Customs & Excise
- Mr Jenkins Parl Counsel

Ch/ Content to write as proposed? OK

BUDGET 1989 : HACKNEY TAX CLASS : VEHICLE EXCISE DUTY

1. You wrote to the Secretary of State for Transport in February of this year asking if his officials could press on with a review of the hackney classes in good time for next year's Budget. This followed representations from Nigel Forman in which he observed that in the interest of equity and the environment, the VED for all coaches should be more than for the private car, so that coaches pay nearer their full track costs, and do not have an unfair advantage over the railways. The Secretary of State for Transport has now replied with proposals for a radical restructuring and simplification of the hackney classes, and for substantial increases in the levels of VED which they pay.

2. The hackney classes cover three types of vehicle - buses, coaches and taxis, and as the attached Press Notice illustrates, there are sixty tax bands which cover these vehicles.

3. The hackney vehicles as a collective group do cover track costs, (ie the VED and fuel duty exceeds their allocated share of road costs) but buses and coaches as a separate class do not; they have an estimated shortfall of around £15m pa for 1988/89 (for licensing purposes, all hackneys are grouped together, but for track cost presentation taxis are included with cars, and buses and coaches are grouped together as a separate class). I attach a copy of last year's road taxation and track cost figures. The estimated figures for 1988/89 will be available shortly.

280/4

TRANSPORT PROPOSALS

Tax classes

4. The Secretary of State proposes reducing the number of hackney classes from sixty to five; the allocation of vehicles to the appropriate class being based, as at present, on the vehicle seating capacity. Mr Channon indicates that he would like to have a system based on gross vehicle weights (GVW), but this would be ^{administratively} expensive and would take a long time to introduce.

5. The proposal represents a welcome and worthwhile simplification of the hackney classes. We recommend acceptance.

6. Mr Channon's detailed observations on the merits of the GVW system may stem from his officials' knowledge that we would like to see a simplification of the HGV classes also. But his officials have not been receptive to our suggestions on this. The attached reply touches on this point, but we are not hopeful that Transport officials will show much enthusiasm for change.

VED rates for hackneys

7. Mr Channon's proposals are as follows:

<u>No of seats</u>	<u>Old Rate</u>	<u>New Rate</u>	<u>Maximum Increase</u>
under 9	£52.50	£100	£ 47.50
9 - 16	£52.50	£130	£ 77.50
17 - 35	£52.50 - £68.25	£210	£157.50
36 - 60	£69.30 - £94.50	£320	£250.70
Over 60	£95.55	£490	£394.45

8. Taxis : taxis already cover track costs, but it does seem inequitable that taxis which spend a great deal of their time on the road, should pay less VED than the family car. The proposal

to increase taxi VED from £52.50 to £100 is reasonable, and assumes that you will wish to freeze car VED at this level for yet another year. We suggest that, in order to keep your options open, you reply to Mr Channon to the effect that you are content for the meantime to see taxi VED set at the same level as car VED.

9. Buses and coaches : the buses and coaches class continues to fall short of track cost coverage and this has, over the years, been the source of criticism, mainly from the pro-rail lobby. These criticisms have been directed towards coaches as opposed to buses, but from the information available, we are satisfied that coaches do in fact cover track costs as their pattern of road usage is quite different to that of buses: coaches spend a greater proportion of their time on motorways which are significantly cheaper to maintain and as a result have lower track costs than do buses. However, Mr Channon's proposals would strengthen our arguments in this respect as the combined buses and coaches class would then come up to track costs coverage.

10. There is no ready means of differentiating between buses and coaches. The increases proposed by Mr Channon will fall on coaches and buses alike, and although the increases are substantial and would account for £17.5m of the additional £20m revenue which these proposals would bring, Transport assure us that they will add no more than 1% to operators' costs. We recommend that you give provisional agreement to Mr Channon's proposals.

Related matters

11. Fuel Duty Rebates : in 1987/88 the total road taxes - VED and fuel duty -paid by buses and coaches was £185m, but around £130m of this was rebated to buses. When Transport officials refer to buses and coaches coming to track cost coverage, this ignores fuel duty rebates which buses subsequently receive.

12. HE and FP plan to undertake a review of fuel duty rebates shortly. But we do not consider that this review need impact directly on the increases which Mr Channon proposes. As he explains, there is no ready means of differentiating between coaches and buses for licensing purposes, and if we are to secure an increase in coach VED, then bus VED must be increased also. Any subsidy which we then consider ought to be directed towards

buses may, if we wish, reflect the increased level of VED paid by buses.

VAT on passenger transport

13. You have asked Customs to work on a proposal to extend VAT to bus and coach journeys, excluding staged services. This would yield around £75m pa, and would be seen by coach operators as a double blow coming on top of VED increases. Mr Channon is, of course, unaware of the work which Customs are doing and this could affect the level at which he proposes coach and bus VED be set. But given the importance which he attaches to ensuring that buses and coaches taken together come to track cost coverage, and that his projected excess would be marginal, we recommend that Mr Channon's proposed level of VED for hackneys be allowed to stand. The combined RPI effect of the suggested extension of the VAT base and the increases in VED, is thought to be in the region of 0.03 per cent.

OTHER TRANSPORT STARTERS

14. We understand from Transport officials that Mr Channon will write to you later in the year with his proposals on the other main VED starters. He is likely to suggest a continued freeze in car VED, but will propose substantial increases to the duty on HGV rigid-trailer goods vehicles, in order to put them on a more equal footing with artics. His proposals would produce about an extra £150m in revenue. Mr Bottomley will be writing to the Economic Secretary shortly with details of the minor starters. The revenue significance of the minor starters is thought to be small.

SUMMARY

15. Mr Channon proposes:

- (a) to reduce the number of hackney tax classes from sixty to five - we recommend that you welcome this;

- (b) to introduce substantial increases in the level of VED for all the hackney classes - we recommend that you give your provisional agreement to this also.

16. A draft reply is attached.

R. George Michie

R G MICHIE

Mr. Channon's VED proposals are in line with what we have been seeking. They simplify the present system and mean that hackneys would cover their track costs. The increases are substantial in percentage terms (see paragraph 7) which will not please the industry; but the RPI effect is negligible (paragraph 13) from the total estimated yield of £20m (paragraph 10).

That said, there is no operational need to sign up finally to these proposals now. Before doing so, you will want to look at them alongside the other changes in transport taxation referred to in Mr. Michie's submission.

R.G. 29/9

CONFIDENTIAL

D R A F T

The Rt Hon Paul Channon MP
Secretary of State for Transport

BUDGET 1989: HACKNEY TAX CLASS: VEHICLE EXCISE DUTY

Thank you for your recent letter outlining the results of the review of the hackney classes. I am grateful for the work which your officials have done on this.

Your proposal for a reduction in the number of tax bands for hackneys from sixty to five is most welcome and will be a very worthwhile simplification. I note and am grateful for your description of the gross vehicle weight system which applies to goods vehicles; as you say, there is a large number of classes. Is there any scope for simplification here - not perhaps as radical as that which you propose for hackneys, but something which could make the list of tax classes less daunting?

I am, in principle, content with your proposals for substantial increases in the level of VED for hackneys and note that the VED for taxis would be set at the existing rate for cars. The fact that these proposals should allow coaches and buses together to

come up to track cost coverage (excluding fuel duty rebates for buses) would be a real plus in presentational terms.

I will make my final decision on the hackney rates after you write with your proposals for the other main VED starters, and this will allow me to take into account the further work which your officials are currently undertaking.

I look forward to hearing from you in due course.

NIGEL LAWSON

CONFIDENTIAL



FROM: Ms K ELLIMAN

DATE: 30 September 1988

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary

BUDGET 1989: HACKNEY TAX CLASS: VEHICLE EXCISE DUTY

The Paymaster General has seen Mr Michie's submission of 26 September. He has commented:

"A cynical observation, but, if you're going to do taxis, a year when there are shire county rather than urban elections is a sensible one".

Kim Elliman

KIM ELLIMAN
Private Secretary

Ch: The draft letter was useless, and I have more or less rewritten it. OK?

29/9

FROM : HM ROBERTS
DATE : 29 SEPT 1988
cc PS / CST
PS / EST
Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mrs Case
Mr Burgner
Mr Turnbull
Mr A Williams
Mr Call
PS / CIE

Handwritten initials and signature in red ink.

1. MR WALLER

While we should not stress to James Rover Group that it is no reason why our main domestic producer should be put at a disadvantage by a Government induced distortion in the normal rules of the game.

*MW
29/9*

2. CHANCELLOR

CAR REGISTRATION LETTER

Summary

The letter of 31 August from the Prime Minister's Private Secretary asks for a note on alternatives to the present car registration system. This appeared helpful given the large demand generated in the UK car market by the 1 August new registration letter and the consequences for imports as well as the disadvantage this has for UK producers (see attached Financial Times article). The Department of Transport have now responded (see attached letter of 20 September) with a note which summarises an interdepartmental review of alternative methods for numbering cars completed last year and concludes that, on balance, no alternative offered significant advantages. This submission recommends a Private Secretary letter to the Secretary of State for Transport's Private Secretary supporting further consideration of the issue, because of its distortionary effect on the UK market and disadvantageous effect on Rover Group.

Background

2. The 1 August new registration letter has significant impact on the pattern of car sales in the UK. About 20% of sales occur in that month. The move to 1 August from the previous 1 January new registration letter date was made in the mid 60s in response to industry requests.

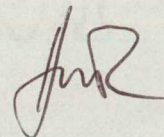
3. The peak August demand has significant effects on industry supply - and corresponding requirements for stockholding. This hits UK producers with high concentration in the UK market such as Rover Group disproportionately hard. Multinationals generally welcome the August peak in the UK because it coincides with a slack holiday period elsewhere. Import penetration rises in August eg last month car imports were 61% compared with 56.6% year average. One reason for this may be supply constraints for UK producers. But it may also reflect a higher demand for imported cars.

4. The interdepartmental review of the numbering system for vehicle licensing (summarised in the Department of Transport's note) was conducted at the request of motor

manufacturing organisations. It looked at a range of alternatives such as registering by keeper or by area code or abolishing the year identifier. It concluded however that none offered significant benefits compared with the present system. The Home Office favoured year identifiers because of the advantages to the police of people generally recognising year indicators on cars. The industry response was split : most multinationals favour the year identifier because it increases the overall demand for cars and because it bridges what would otherwise be a trough in demand Europe-wide. But Rover Group whose market is concentrated in the UK suffers from supply constraints and its market share falls in August.

Conclusion

5. It is not clear the impact that the year identifier and the consequent market distortion has on the balance of payments in the motor industry. But the clear sales peak and apparently adverse impact on UK producers (specifically Rover Group) suggest that the question merits further consideration. We therefore recommend that your Private Office writes to the Secretary of State for Transport's Private Secretary supporting the 31 August letter.



MS HM ROBERTS

Be type letter from DT to Paul Gray (No 10)

~~DRAFT LETTER TO THE SECRETARY OF STATE FOR TRANSPORT'S PRIVATE SECRETARY~~

CAR REGISTRATION LETTER

The Chancellor has seen the note on car registration ^{enclosed with ~~you~~ Roy Griffins} attached to the ^{your} Secretary of State for Transport's Private Secretary's ^{to you} letter of 20 September. ^{That note reports the conclusions of a review of alternative registration methods.} ~~responding to the request in the Prime Minister's Private Secretary's letter of 31 August.~~

The Chancellor ^{has noted that the review concluded - mainly for policing reasons -} ~~is aware of the recent review of this question, the conclusion of which turned effectively on policing issues.~~ ^{that we should stick to the present system.} He ^{He continues to share, however, the} however very much shares the Prime Minister's concern that the ^{Against peak in demand may} severe peaking in demand because of the 1 August new car registration letter generally may lead to ^a higher import penetration than otherwise.

^{suggests,} He therefore, ^{that the economic implications should be studied more fully before any firm conclusion is reached. If it is concluded that the present arrangements agree to interests of domestic producers,} considers that greater weight now needs to be given to the economic impact of the current arrangements and would very much like to see the issue reconsidered with a view to agreeing on a change in the registration arrangements which would lead to the removal of any bias in sales pattern ^{caused by the Government's registration arrangements.} ^{create a bias against the interests of domestic producers, he would}

I am copying ^{the letter to Paul Gray (no 10)} ^{Neil Thorne (DTI)} ^{Roy Griffins} ^{hope that a satisfactory alternative might be found.} ^{D.WISH.}

Neil Thorne (DTI) and Philip Nower (Home office). ~~WALLAN~~

JMG-T



php

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

30 September 1988

Paul Gray Esq
No.10 Downing Street
London SW1

- cc PS / CST
- PS / EST
- Sir P Middleton
- Mr Anson
- Mr Monck
- Mr Phillips
- Mrs Case
- Mr Burgner
- Mr Turnbull
- Mr A Williams
- Mr Call
- PS / CIE
- MC WAUER
- Ms MR Roberts

Dear Paul

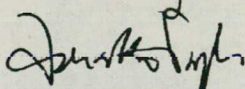
CAR REGISTRATION LETTER

The Chancellor has seen the note on car registrations enclosed with Roy Griffins' letter to you of 20 September. That note reports the conclusions of a review of alternative registration methods.

The Chancellor has noted that the review concluded - mainly for policing reasons - that we should stick to the present system. He continues to share, however, the Prime Minister's concern that the August peak in demand may lead to higher imports than otherwise.

He suggests, therefore, that the economic implications should be studied more fully before any firm conclusion is reached. If it is concluded that the present arrangements create a bias against domestic producers, he would hope that a satisfactory alternative might be devised.

I am copying this letter to Roy Griffins (DTp), Neil Thornton (DTI) and Philip Mawer (Home Office).

Yours sincerely

J M G TAYLOR
 Private Secretary

cc PS/Chief Secretary
 PS/Financial Secretary
 PS/Paymaster General
 PS/Economic Secretary
 Sir P Middleton
 Mr Scholar
 Mr Culpin
 Mr Revolta
 Mr Riley
 Mr Macpherson



Treasury Chambers, Parliament Street, SW
 (01 270 3000)

PS/Customs & Excise

Mr Jenkins -
 Parly Counsel

30 September 1988

Rt Hon Paul Channon Esq MP
 Secretary of State for Transport
 Department of Transport
 2 Marsham Street
 LONDON
 SW1P 3EB

A handwritten signature in cursive script, appearing to read 'Paul Channon'.

BUDGET 1989: HACKNEY TAX CLASS; VEHICLE EXCISE DUTY

Thank you for your recent letter outlining the results of the review of the hackney classes. I am grateful for the work which your officials have done on this.

Your proposal for a reduction in the number of tax bands for hackneys from sixty to five is most welcome and will be a very worthwhile simplification. I note and am grateful for your description of the gross vehicle weight system which applies to goods vehicles; as you say, there is a large number of classes. Is there any scope for simplification here - not perhaps as radical as that which you propose for hackneys, but something which could make the list of tax classes less daunting?

I am, in principle, content with your proposals for substantial increases in the level of VED for hackneys and note that the VED for taxis would be set at the existing rate for cars. The fact that these proposals should allow coaches and buses together to come up to track cost coverage (excluding fuel duty rebates for buses) would be a real plus in presentational terms.

I will make my final decision on the hackney rates after you write with your proposals for the other main VED starters, and this will



allow me to take into account the further work which your officials are currently undertaking.

I look forward to hearing from you in due course.

A handwritten signature in black ink, appearing to read "Nigel Lawson", written over a printed name.

NIGEL LAWSON



10 DOWNING STREET
LONDON SW1A 2AA

Ch. This obviously crossed with my letter - but it is broadly consistent with it.

We had a talk on the paper

5/10

From the Private Secretary

3 October 1988

CH/EXCHEQUER	
REC.	- 3 OCT 1988
ACTION	CST
COPIES TO	

3/10 Dear Roy,

**VEHICLE REGISTRATION NUMBERS:
THE YEAR IDENTIFIER LETTER**

The Prime Minister was grateful for the paper on this subject prepared by your Secretary of State.

She recognises the importance of ensuring arrangements that meet law enforcement needs. She wonders however whether the present arrangements maximise the memorability and elimination potential of the licence plate. She would be grateful if further work could be undertaken on means of enhancing this potential, consistent with removing the impact on the trade figures generated by the year letter. The Prime Minister wonders whether any lessons could be drawn from the practises adopted on the Continent.

I am copying this letter to Alex Allan (HM Treasury), Neil Thornton (Department of Trade and Industry) and Philip Mawer (Home Office).

Paul Gray

(PAUL GRAY)

Roy Griffins, Esq.,
Department of Transport.

CHANNON
2/10

CONFIDENTIAL



[Handwritten signature]

DEPARTMENT OF EXCHEQUER
2 MARSHAM STREET LONDON SW1P 3EB

REC	21 OCT 1988
	EST

My ref:
Your ref:

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

ECONOMIC SECRETARY	
REC'D	24 OCT 1988
ACTION	MR MACHIE
COPIES TO	PS/CIA PS/IST PS/ST PS/PMG SIR MURDOCH MR SIMON MR CULIN MR BOLT MR RILEY MR MACPHERSON PS/LE MR JENKINS - P.C.

21 OCT 1988

[Handwritten signature: Nigel]

1989 BUDGET: GOODS VEHICLE MOTERING TAXATION

Thank you for your letter of 30 September responding to my proposals for the hackney taxation class (taxis, buses and coaches). I was grateful for your encouraging reply.

Peter Bottomley has already written to Peter Lilley with details of our 'minor starter' proposals. There is only one other major matter I wish to deal with this year - rigid goods vehicle excise duty rates. I am making no proposals for VED for cars. We agreed last year that there were sound reasons for continuing to shift the balance of motoring taxation for cars away from VED by increasing fuel duty to produce any additional revenue required from motoring taxation. I am still of that view and I was pleased that you took the additional revenue you required last year from fuel duty.

The heavier rigid goods vehicles were subject to modest increases in their rates of VED last year. That was to begin bringing the excess of taxation over allocated costs for those vehicles more into line with that paid by articulated vehicles of similar weight. Our policy is to allocate any excess disproportionately to heavier vehicles because of their greater social and environmental impact, as recommended in the Armitage Report.

The increase in 1988 was intended to demonstrate commitment to the Armitage principle and set the scene for possible further increases in future years. The issue of equity between rigids and artics has featured in the Opposition comments in the last three Finance Bill Committee Stage debates. The National Audit Office in its report on the Regulation of Heavy Lorries criticised us on the related issue that the progression of the excess with rising vehicle weight was not consistent. And of course there is an economic efficiency argument for ensuring that whatever the overall level of motoring taxation any excess is applied consistently

CONFIDENTIAL

across all goods vehicle types so that the full economic implications of transport choices are brought home to users.

Peter Lilley wrote to John Marek after the Committee Stage and, commenting on the 10% rise, gave a reasonably clear indication that the balance between rigids and artics would be addressed again. I have been considering the options in the context of proposals for the 1989 Budget.

Trends in vehicle numbers and uses tend to widen the gap between the excess paid by rigids and that paid by similar articulated vehicles. Increases in fuel duty generate more revenue from articulated vehicles because they tend to use more fuel. So even if rigids were to be brought to parity with artics, their VED would need periodic adjustment if the difference in the excess were not to widen again.

The present difference in the excess is disturbing, and calls for rises in VED for most rigid goods vehicles. For this coming Budget therefore I propose we increase VED on those vehicles to bring their excess further into line. What I am proposing is a range of selective increases that will generate something under £50 million extra revenue. I have concluded that it would not be right to impose on the industry, particularly the small concerns that own many heavier rigids, a greater increase in direct costs in a single year (VED is paid in advance and has a higher profile than fuel duty which is paid 'as-you-go'). This means, however, that at least one more increase of that order will be required to bring rigids to parity with artics.

Because of the effect of fuel duty rises on any such measures, I hope you will this year consider a novel approach, which has been discussed between our officials. You made it clear in last year's Budget speech that the fuel duty increases were the size they were because they had been set to produce the equivalent to the revalorisation of all motoring tax revenue - fuel duty and VED together. What I propose for this year is that you offset the extra VED revenue that my proposals will produce (about £70 million in total, including the proposals for hackneys) against any increase in the total revenue you require from motoring taxation this year and recover the remainder through an increase in fuel duty.

If you agree to this principle it will provide a durable and simple mechanism for dealing with any inequalities in the present taxation structure arising from changing track cost considerations and would not impinge in any way on your freedom to determine at any stage what level of overall revenue you require from motoring taxes. My officials are still working on the details of the new rates for each tax class and will be in touch again with yours in due course. But I felt it was important to put the strategy to you as soon as possible.

If you were to decide that you did not need to raise further revenue from motoring taxes I would not wish to proceed with more than the sort of modest rise you agreed to for rigids last year. That amounted to around £18 million and was equivalent to the product of revalorisation of goods vehicle VED.

I would in any case wish still to proceed with the increases for hackneys and to deal also, come what may, with Special Types, the 400 vehicles we separated out last year because of their serious track cost shortfall. We set their VED at £1,600 initially and gave strong hints that it would go up this year to £3,100. I propose to follow through with that, pending the results of a new survey of their track costs which may reveal the need for further increases.

You referred in your letter to the large number of tax classes for goods vehicles and asked if there was any scope for simplification. I agree the list is daunting. And I agree that simplification would have presentational advantages. But the goods sector does not offer the same rich opportunities that the hackneys did. What I have suggested for hackneys is a structure which has about the same number of classes as it would under the gross weight regime that applies to goods vehicles.

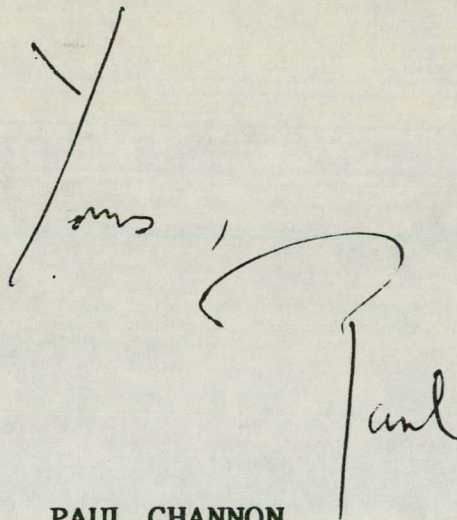
There is no track cost reason for changes in tax rate for every extra passenger, which is the current hackney structure. HGVs, however, change only every 2 tonnes, and the difference is significant for track costs. For example, per thousand kilometres travelled on motorways 23-25 tonne 3-axle rigids incur 19% more costs than 21-23 tonners.

The two tonne band structure has now been adopted as the basis for the European Commission's latest draft directive on the allocation of infrastructure costs to goods vehicles. We are supporting this because (a) it involves us in no costly changes; (b) it ought to result in other states raising their VED levels, to the advantage of UK hauliers engaged in international competition; and (c) it will help overcome resistance to greater liberalisation of the European haulage market, where we stand to do better than most.

The other factors leading to a proliferation of tax rates are the number of axles a vehicle has (another feature of the EC directive), and the concessions for farmers and showmen. I strongly support reflecting, by means of tax rates, the differing amounts of wear and tear caused by the same weight distributed over different numbers of axles. A 6-axle 36-tonner incurs 22% less track costs in a year than a 2 + 3 axle vehicle. Higher wear leads to more demands for maintenance expenditure. As for farmers' and showmen's concessions, they reflect much lower use and would be very difficult to remove now.

Simplification would not save any costs or staff. It would affect the calculation of track costs however, by requiring still further averaging of costs between vehicle types that we are already aware may have significantly different patterns of lading, road use and fuel consumption. Changes, which would not be driven, as in the hackney class, by a clear failure to cover costs, might need full consultation with the haulage industry and with manufacturers. The effects on the vehicle market could not be certain and I would wish to avoid bunching below tax thresholds: this is a problem that will have to be watched in the new hackney structure. Nor would it be possible to avoid opening the whole of the track cost and motoring taxation policy to debate.

Nevertheless I have asked officials to look at the matter further: it may be that much would be achieved if the tables could be presented to the public in a simplified and more understandable format.

A handwritten signature in black ink, appearing to read 'Paul', with a large, sweeping flourish above the name.

PAUL CHANNON



CH/EXCHEQUER	
REC.	28 NOV 1988
ACTION	CST
COPIES TO	

✓28/11

PRIME MINISTER

(Have CS... had any... 6/12)

Your Private Secretary's letter of 3 October asked for a further note on maximising the usefulness to the Police of some elements of the vehicle registration system if the year identifier letter is to be abolished. The Chancellor has asked that the economic implications should be more fully studied.

The DTI have carried out a study (Annex 1) which shows that the effect of the year identifier letter on the industry and the balance of trade is small. The domestic motor industry is doing very well at present, although lower sales next year are predicted. Rover Group's increased competitiveness and productivity are contributing to a very healthy improvement in their performance. They have argued that they would prefer the removal of the August sales peak, but they accepted the Government's conclusion earlier this year that the August change should stay. The other big domestic manufacturers - Ford and Vauxhall - want to keep the current system. The car dealers - and there are many thousands of them - like the year identifier because they believe that it increases the total volume of sales (although this is difficult to prove) and would strongly oppose a change.

So a change would involve fierce opposition from most of the industry. If an announcement coincided with the downturn in the market next year, I am sure that some sections of the industry would blame us in part.

Before I announced last February the Government's decision to retain the present system, we examined all possibilities for moving the change of year letter to another month in order to

avoid the August peak. It was clear that all the alternatives bring their own problems, and the industry was quite positive that if the year letter was to be retained, August was preferable to any other month.

To drop the year letter whilst retaining the present numbering system in other respects would not meet the law enforcement needs of the Police. So we would have to introduce a radically different system. A note by Department of Transport officials (Annex 2) examines this and concludes that the alternatives are to change either to an easily memorable local area system or to a system of registering keepers instead of vehicles. Either is technically possible, and we may need to make a change of this kind in any case when the present alphabetical series is exhausted at the end of 15 years. Introducing a radically new system would be complex and expensive. A complete new set of programmes would be needed for the DVLC computers. The costs cannot be estimated with any precision until decisions are taken on the nature of the new system, but my officials believe that the initial extra cost might be £5m-£10m, with additional running costs of a similar amount ever year because of the need to re-register a car on every change of area, if this were a requirement as the Police would insist, or keeper.

If we did not already have a year identifier, I would view a proposal to introduce one with some suspicion. However, I do not think we should now make changes to the rules around which companies have geared their investment and production strategies without being certain that the changes are justified and for the better. There is no evidence that the motor industry or the economy would benefit from a change at this time, and some of the largest companies believe that it would be damaging, as do the car dealers.

CONFIDENTIAL

If you think that the issue should be considered in greater depth by colleagues, I could put a paper with options to E(A).

I am copying this minute to Nigel Lawson, Douglas Hurd and David Young.

P.C.

PAUL CHANNON

28 NOV 1988

CONFIDENTIAL

YEAR IDENTIFIER: Industry case

Note by the Department of Trade and Industry.

Overview

1. The one undisputed effect of the Year Identifier change in August is that it creates a sales peak in that month amounting to 20 per cent of annual car sales - the proportion appears now to have stabilised at about this level in recent years. Industry views diverge on the costs and advantages which flow from this concentration and as to alternatives.

2. Parts of the distribution sector and some vehicle manufacturers argue that:

- The identifier boosts the overall market and leads to higher new car sales overall;
- An August change brings sales and production into the second half year thereby improving UK plant utilisation compared with the mainland European position where sales are weighted towards the first half year;
- UK manufacturers dependent on export sales are able to specialise in building LHD cars in the early months of a year and concentrate on RHD requirements in June and July for the UK peak in August.

3. The costs to the industry from the peaking effect on sales are difficult to quantify without a detailed cost accounting survey though there is evidence of car stockpiling on the lead up to August as monthly production volumes for the industry are more evenly spread than sales. However, the extent of stocking for the August peak appears to have diminished markedly since 1985.

4. Critics of the present system have contended that the major multinationals manufacturing in Britain benefit from the present system through their option to meet peak sales here from their mainland European plants at a time when car sales elsewhere in Europe (and in Japan) are at or near an annual low - in some countries the winter sales trough in December or January is lower than in August.

5. Partly for this reason, it is also argued that the effect of the sales peak is to increase import penetration. Though the monthly profile of car registrations sourced from imports matches closely that of registrations sourced from UK plants, there is some slight bias in favour of import sourcing at the August peak both in general and by the major multinationals operating in the UK. There is some possibility that the peaking effect of the identifier leads to a slightly higher import bill but any influence is difficult to measure.

6. It is said that the benefits which the multinationals derive from the present system reduce the incentive for them to invest in Britain but we think this unlikely.

Sales

7. Since the introduction of the August change in 1967 there has been some tendency for the concentration of car sales in that month to increase over time but the proportion appears to have stabilised at about 20 per cent in recent years. It is clear from the low sales in July and from some commissioned market research studies that the identifier leads to some postponement in purchasing to enable buyers to secure the perceived advantages of a new prefix as this can affect trade-in values. Table 1 and Chart 1 (appended) show the monthly profile of registrations.

8. The identifier has led to the focusing of marketing activity by the industry and some argue that the effect is to increase overall demand as consumers are encouraged to trade-in cars more often. This view is inherently untestable as there are no appropriate comparisons: the British system is unique in Europe and historic data prior to 1963, when the (January) identifier was introduced, are considered unlikely to provide much guidance as to market conditions now were the identifier to be abolished. Nevertheless, the thesis of higher overall annual sales could still be valid but there is no presumption that higher car sales at the expense of other consumption or saving is necessarily an economic benefit from a national perspective even if motor manufacturers would benefit. Since 1984 UK car sales have established successive record levels each year and the need for measures to boost the market would seem to have less relevance than they might have had in more difficult market conditions.

9. For contrast, Charts 2 and 3 show the monthly distribution of sales in selected European countries for which data was available, and in Japan. In each of these charts there is a pronounced spring sales peak followed by a summer low point in August with a secondary peak in the early autumn. The best conjecture as to what would happen to the seasonal distribution of car sales in the absence of a year identifier is that the British pattern would converge towards the mainland European sales pattern with a distinct weighting towards the first half year.

10. For a short while, a change in the month from August to October gained wide but not universal support within the industry until the view prevailed that an October change would result in many trade-in cars being held in stock and subject to deterioration over the winter months until the spring buying season.

Production effects

11. Seasonal variations in the volume of UK car production are smaller than for car sales (Chart 4) and this does indicate the need for stockpiling. It is possible to model the cumulative changes in car stocks through a year in that UK production and imports in a month will increment stocks while registrations and exports will deplete them. A chart showing the cumulative effects on car stocks during each of the years 1985 through 1987 shows clearly the build up of stocks in the summer months to August and

its quick attrition by the peak sales in August. However, it is evident that the large stockpiling which did occur during 1985 when it reached over 200,000 cars by end July was not followed in subsequent years where the build up has been largely confined to July alone and to more modest levels (Chart 5). The evidence suggests therefore that the stocking problem is now better managed.

12. Stock levels occasion holding costs in terms of return on capital, parking space, security and maintenance which must fall initially on manufacturers and distributors. It has also been argued peaking costs are ultimately borne by car buyers as supplier cost are passed on in a competitive market and, possibly, in so far as the August sales rush leads to inadequate pre-delivery inspection by distributors.

13. On the basis that seasonal variations in UK car production are not as great as with car sales, there would appear to be no good grounds for believing that a significant incidence of peaking costs are also carried by component suppliers in the industry. In anecdotal reports from the industry, it is not readily possible to distinguish between additional costs arising from the peaking effect and those occasioned by under-forecasting the strength of market demand or the presence of capacity constraints for other reasons. Published sales forecasts attributed to industry sources and consultants have consistently under-estimated market growth in recent years.

Trade effects

14. Hypotheses concerning the trade effects of the identifier are not always clearly put but there appear to two principal candidates. The first is that the UK multinationals benefit from their ability to source UK peak sales from their continental mainland plants at a time when local sales are at a low point in other European markets during July and August. The advantage is that this improves utilisation in their mainland plants.

15. There is arguably some substance to this hypothesis but the effect is likely to be small because their UK sales sourced from imports are only a relatively small proportion of total output from their mainland plants. Production data by month for the multinationals are not available but annual data are published. In 1987, Ford UK registrations sourced from imports amounted to 16 per cent of total output from the company's European mainland plants in Belgium, Germany and Spain. In the case of Vauxhall-Opel, the proportion was 5 per cent, and for Peugeot 4 per cent. Both Ford and Vauxhall claim that they are operating their UK plants at or near capacity limits already so there is no margin to spare for the substitution of their imports by UK production.

16. UK car manufacturing companies dependent on export sales, notably Jaguar and Rolls Royce, claim benefits for the present system in that the offset of the UK annual sales peak against the peaks in overseas markets enables them to concentrate on LHD or RHD production at different times and hence, presumably, gain some benefit from specialisation in assembly.

17. Austin Rover is more dependent on home market sales but has the opportunity of securing better plant utilisation through exports sales to other European countries when the UK market is off-peak. Exports amounted to 33 per cent of Austin Rover's total car output in 1987. The conclusion must therefore be that while there may be some substance to plant utilisation argument, it is relatively small now for the multinationals and that the Rover Group has the opportunity to gain similar advantages from exporting.

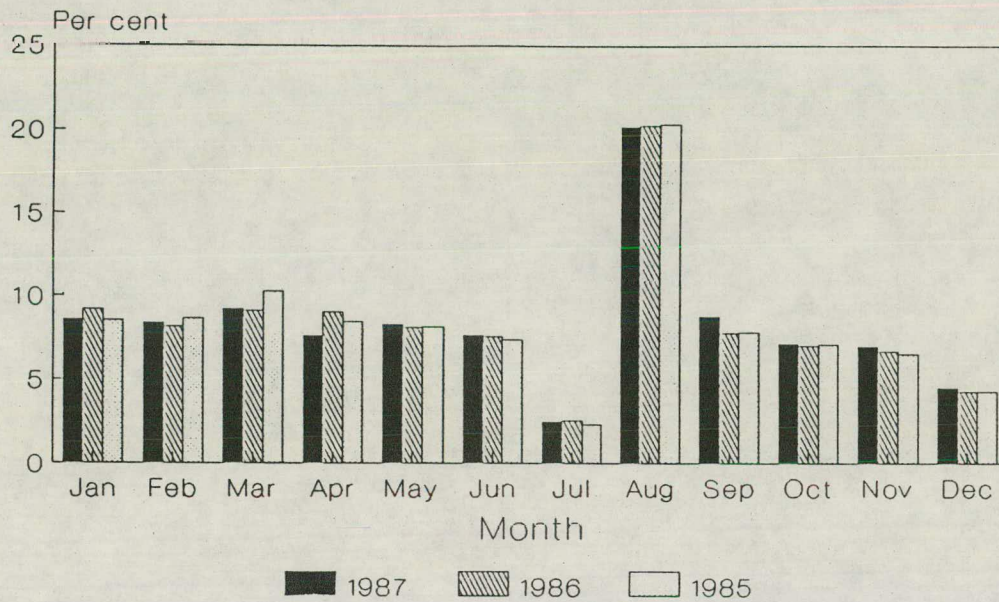
18. It also seems that there is little substance to the argument that the multinationals tend to source market peak sales in Britain mainly from imports. The evidence is that the distribution of their sales patterns by month, whether sourced from UK production or from imports, are all very similar and close to the way total registrations vary month by month. A slightly higher proportion of their August sales are sourced from imports as against UK production but the difference amounted at most to four percentage points in the case of Ford in 1987 and was smaller for the other two multinationals (Table 2 and Chart 6).

19. ~~The second hypothesis concerning trade effects argues that~~ the market effects of the year identifier inhibits plant investment by the multinationals in the UK because they are better placed to source UK peak demand from continental mainland plants. This is difficult to assess because location decisions are normally based on a number of considerations covering relative costs, exchange rate projections, taxation, production quality and other matters. Plant utilisation is doubtless one of the factors but the multinationals would be able to maintain production schedules during UK off-peak demand by supplying European mainland markets during the peaks in these markets. It is therefore difficult to support the thesis that the year identifier is a significant deterrent to inward investment if other factors are favourable.

DTI/CVM5d
21 November 1988

Chart 1

REGISTRATIONS: Cars and Taxis
Per cent per month



Source: SMMT

Table 1

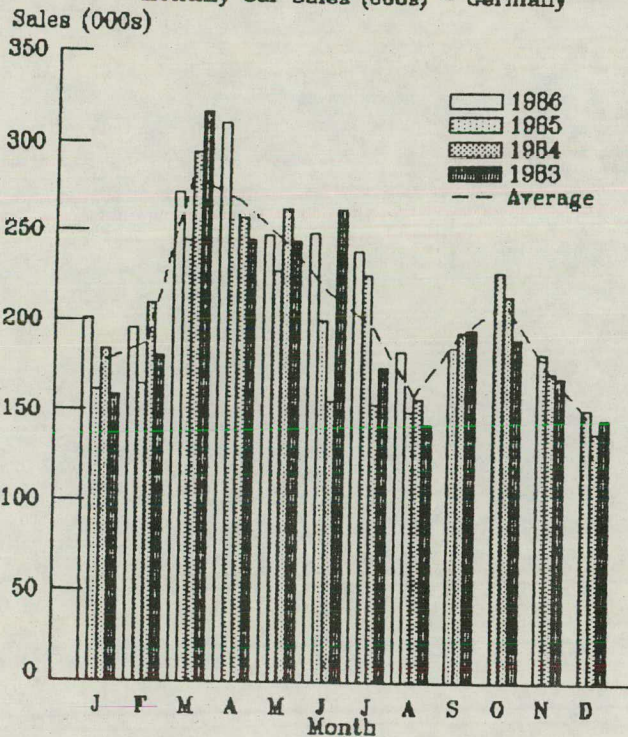
REGISTRATIONS: Cars and Taxis Numbers			REGISTRATIONS: Cars and Taxis Per cent per month			
	1987 Nos.	1986 Nos.	1985 Nos.	1987 %	1986 %	1985 %
Jan	172,693	173,275	156,823	8.6	9.2	8.6
Feb	168,658	153,859	158,358	8.4	8.2	8.6
Mar	185,921	171,858	187,967	9.2	9.1	10.3
Apr	153,587	170,141	155,076	7.6	9.0	8.5
May	167,357	152,877	149,701	8.3	8.1	8.2
Jun	154,526	142,696	135,798	7.7	7.6	7.4
Jul	49,644	47,759	42,428	2.5	2.5	2.3
Aug	407,333	382,215	373,253	20.2	20.3	20.4
Sep	177,412	147,203	143,615	8.8	7.8	7.8
Oct	144,054	133,062	130,406	7.2	7.1	7.1
Nov	141,224	126,621	120,332	7.0	6.7	6.6
Dec	91,284	80,888	78,738	4.5	4.3	4.3
Total	2,013,693	1,882,474	1,832,405	Annual: 100.0	100.0	100.0

Source: SMMT

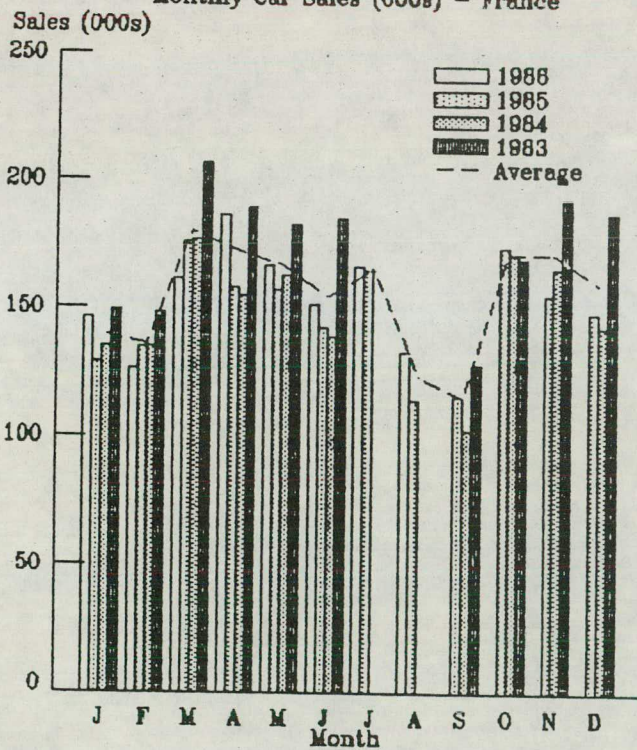
Source: SMMT

Chart 2

Monthly Car Sales (000s) - Germany



Monthly Car Sales (000s) - France



Monthly Car Sales (000s) - Japan

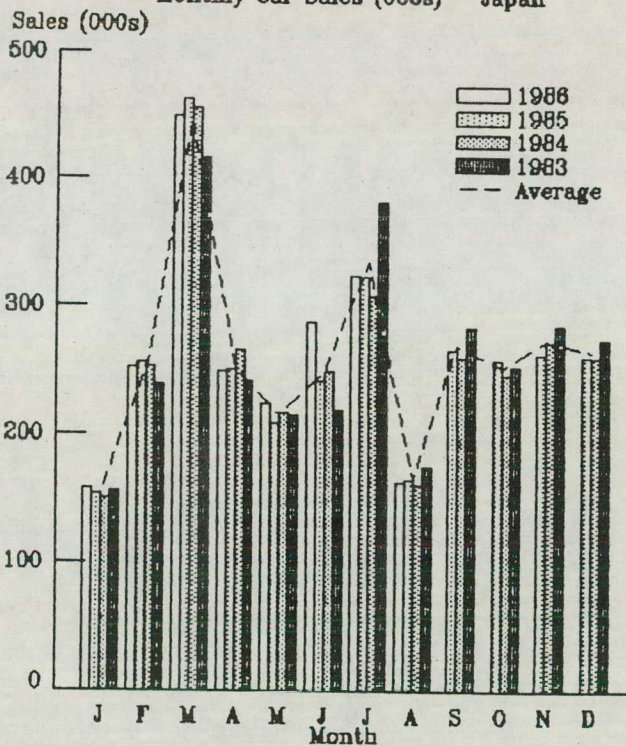
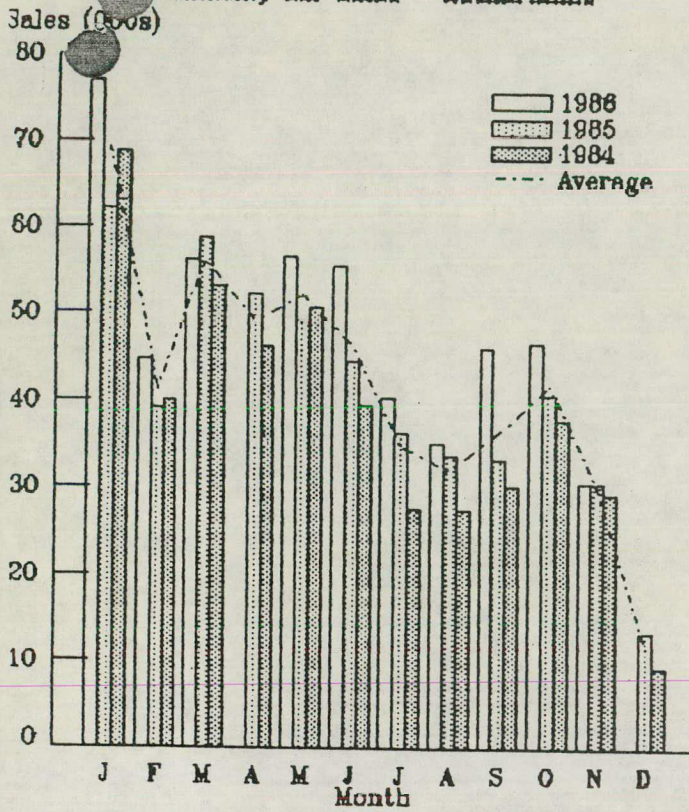
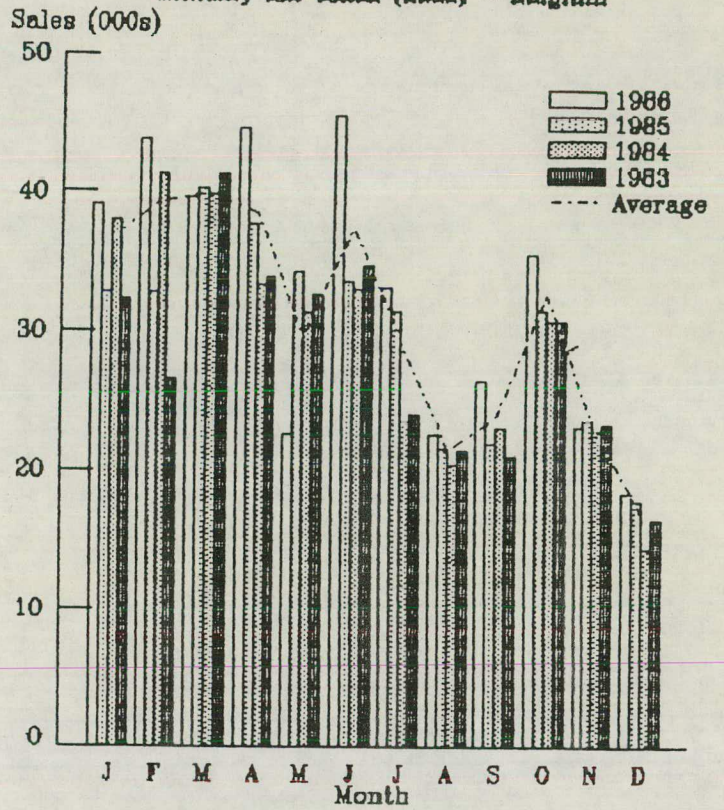


Chart 3

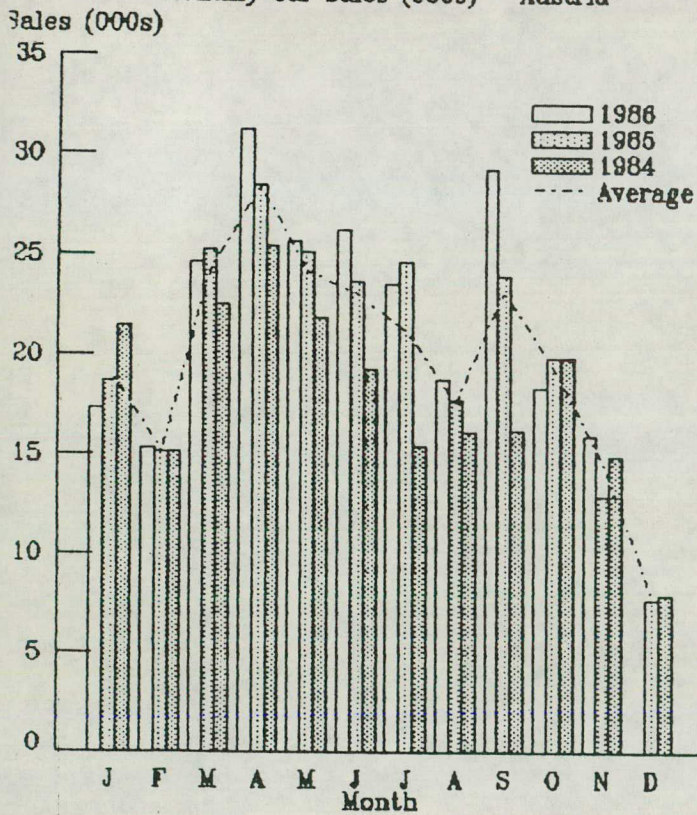
Monthly Car Sales - Netherlands



Monthly Car Sales (000s) - Belgium



Monthly Car Sales (000s) - Austria



Monthly Car Sales (000s) - Switzerland

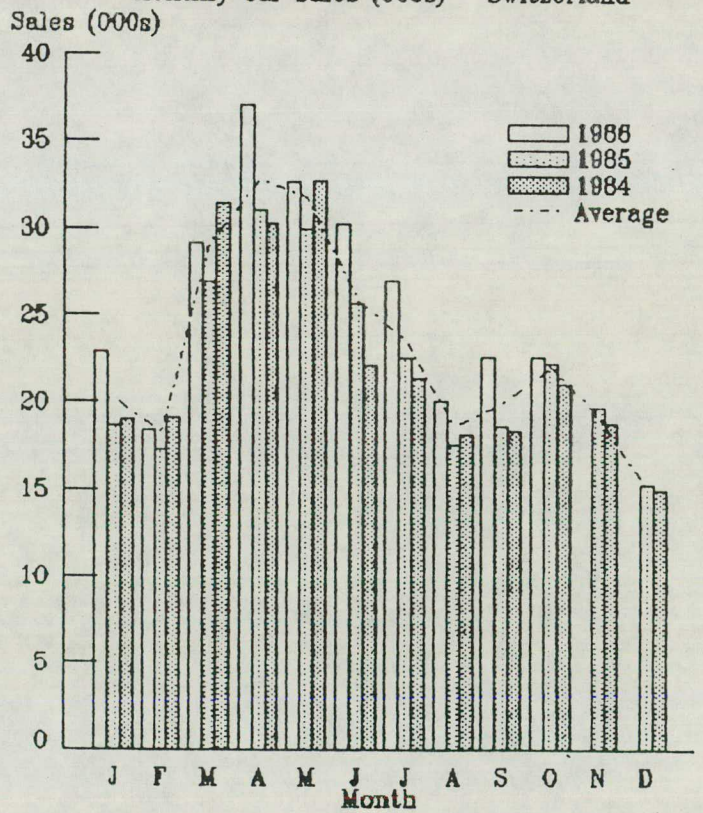
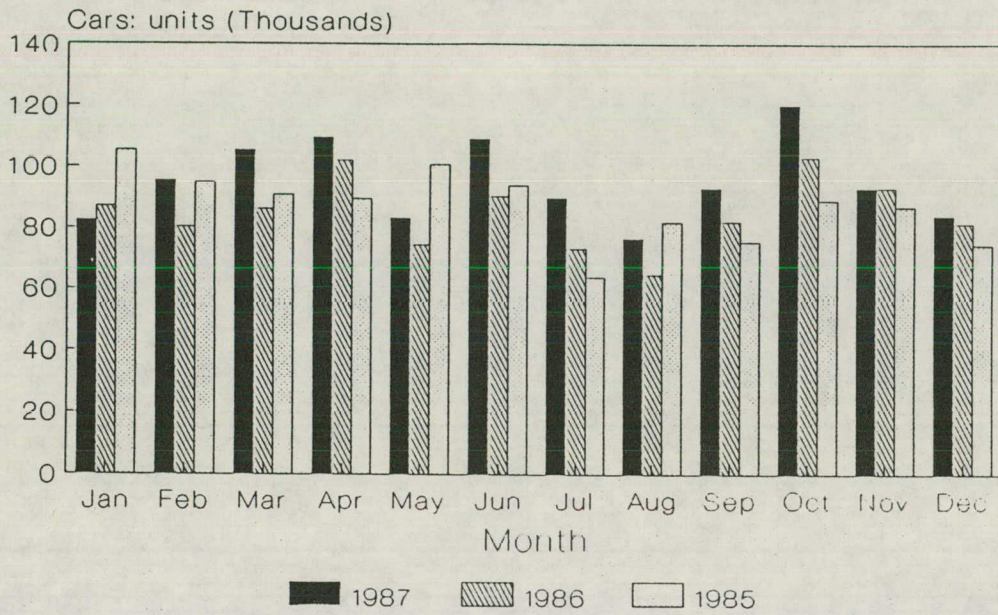


Chart 4

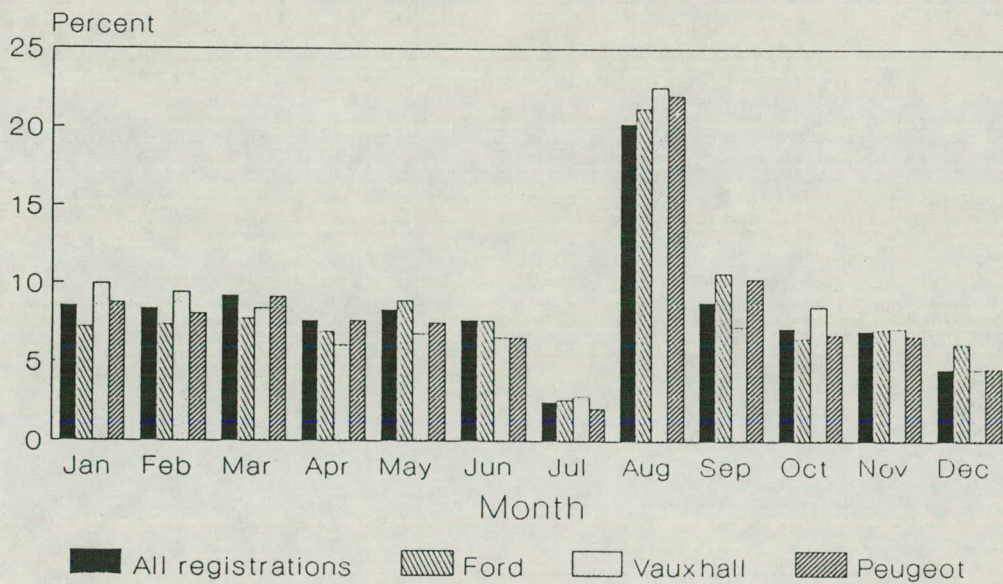
UK CAR PRODUCTION by month.



Source: SMMT

Chart 5

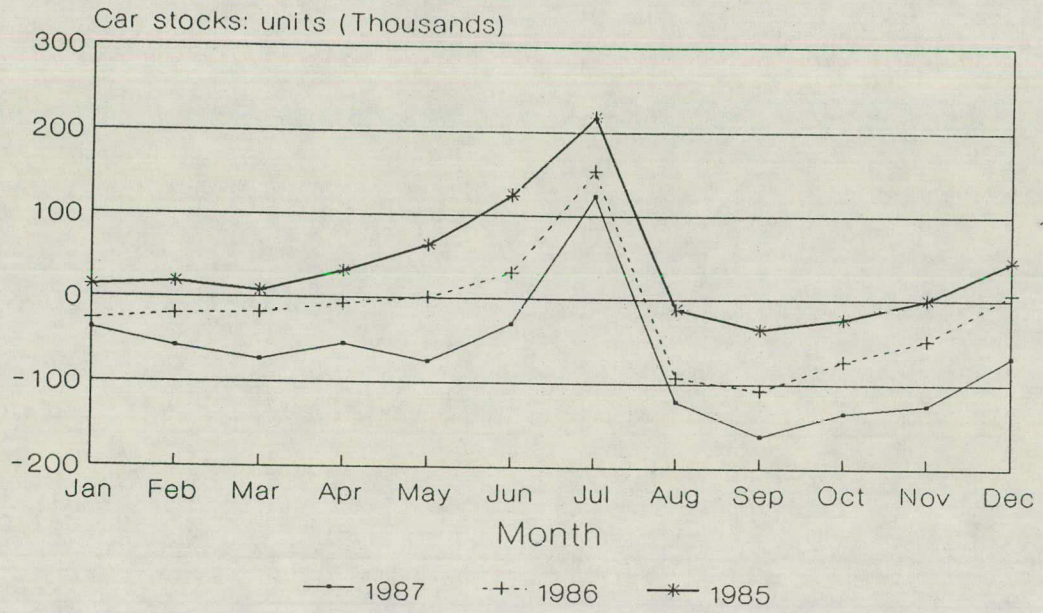
NEW CAR AND TAXI REGISTRATIONS: 1987 Multinational imports & all registrations Per cent per month.



Source: SMMT

Chart 6

CUMULATIVE CHANGE IN CAR STOCKS Since beginning of year.



Source: Derived from SMMT data.

Table 2

NEW CAR AND TAXIS REGISTRATIONS: 1987
 by month with source of final assembly.
 Major manufacturers.

	FORD				VAUXHALL/OPEL				PEUGEOT				AUSTIN ROVER		REGISTRATIONS			
	Registrations		per cent		Registrations		per cent		Registrations		per cent		Regist-	Registra-	All	Other	Registrations	
	by source:	per month:	per cent	per month:	by source:	per month:	per cent	per month:	by source:	per month:	per cent	per month:	All UK	cent per	sources	imports	per cent	
	UK	Imports	UK	Imports	UK	Imports	UK	Imports	UK	Imports	UK	Imports	as sourced from:	as sourced from:	month	(excepting	as sourced from:	per month:
	Nos.	Nos.	%	%	Nos.	Nos.	%	%	Nos.	Nos.	%	%	Nos.	%	Nos.	Nos.	%	%
Jan	34,639	12,767	8.6	7.2	19,508	8,594	10.6	10.0	2,465	5,142	5.8	8.8	29,105	9.8	172,693	57,841	8.6	8.1
Feb	32,444	13,088	8.1	7.4	18,829	8,149	10.2	9.4	2,935	4,721	6.9	8.1	28,539	9.6	168,658	56,787	8.4	7.9
Mar	39,176	13,759	9.7	7.8	17,575	7,250	9.5	8.4	4,192	5,354	9.8	9.1	27,961	9.4	185,921	67,081	9.2	9.3
Apr	34,679	12,307	8.6	6.9	13,373	5,241	7.3	6.1	3,178	4,454	7.4	7.6	23,841	8.0	153,587	53,692	7.6	7.5
May	37,715	15,793	9.4	8.9	15,896	5,878	8.6	6.8	3,097	4,395	7.3	7.5	22,632	7.6	167,357	58,802	8.3	8.2
Jun	30,934	13,501	7.7	7.6	11,918	5,662	6.5	6.6	3,174	3,826	7.4	6.5	23,136	7.8	154,526	57,859	7.7	8.1
Jul	10,976	4,541	2.7	2.6	5,438	2,384	2.9	2.8	798	1,192	1.9	2.0	7,767	2.6	49,644	15,277	2.5	2.1
Aug	69,461	37,632	17.2	21.2	36,399	19,487	19.7	22.6	8,918	12,916	20.9	22.1	59,055	19.9	407,333	153,727	20.2	21.4
Sep	38,868	18,915	9.6	10.7	10,183	6,276	5.5	7.3	5,617	6,024	13.2	10.3	22,707	7.7	177,412	64,904	8.8	9.0
Oct	25,320	11,574	6.3	6.5	14,441	7,357	7.8	8.5	3,391	3,962	7.9	6.8	22,324	7.5	144,054	51,791	7.2	7.2
Nov	29,427	12,565	7.3	7.1	12,767	6,161	6.9	7.1	2,732	3,900	6.4	6.7	17,289	5.8	141,224	51,887	7.0	7.2
Dec	19,166	10,872	4.8	6.1	8,104	3,904	4.4	4.5	2,200	2,681	5.2	4.6	12,428	4.2	91,284	28,852	4.5	4.0
TOTAL	402,805	177,314	100.0	100.0	184,431	86,343	100.0	100.0	42,697	58,567	100.0	100.0	296,784	100.0	2,013,693	718,500	100.0	100.0

Source: SMMT

ALTERNATIVE REGISTRATION NUMBERING REVIEW

Note by Department of Transport officials

The year identifier letter was introduced in 1963 because of the prospect of running out of numbers. In 1967, the time of the change was altered from the month of January to the month of August in a deliberate attempt - at the request of the motor industry - to alter the normal seasonal pattern of the market, with its emphasis on Spring sales, which before 1967 resulted in a much heavier volume of sales in the first-half of the year, compared to the second-half.

2 The August change has been successful in achieving a balance between new car sales in the two-halves of the year. It has done so, however, by distorting the natural market pattern.

3 The factor which causes this distortion - the importance which the public attaches to the changing year letter, and hence its high memorability - also yields the benefits to the Police and law enforcement agencies. If, therefore, the year letter is to be dropped, it needs to be replaced by a new system which scores equally highly on memorability.

What the Police need

4 The current year identifier provides the Police with a feature of a vehicle's registration number that is often remembered by witnesses (for the very reasons that make it such an effective distorter of the market). By dating a vehicle immediately, it helps them when checking the mechanical condition and other physical features of a vehicle, and in deciding the statutory requirements which apply to it. But there is no way in which an age indicator that is easy to understand will not distort car sales. To compensate for the disadvantage of losing the identifier, they will need an alternative system with features that:

/- improve.....

CONFIDENTIAL

- improve memorability of registration numbers for witnesses;
- make it easier to trace a vehicle from a partially-seen or - remembered number (the numbers 'elimination potential');
- if possible, provides a more effective index for keeper, keeper's address and other details recorded on the Police National Computer than the current system.

Otherwise the numbering system itself is neutral for the Police, 'though they will never be keen on changes to the format to which their officers and the public have grown used.

Memorability

5 Commonsense and the systems adopted in other countries show that there are many alternative ways by which numbering systems can be made to produce memorable registration numbers. The most important distinction is between recognisable words, abbreviations or symbols and random groupings or codes. When the characters mean nothing in themselves, research has shown that smaller groups of letters or numbers are more likely to be remembered correctly than larger ones; but recognisable words or part-words are better than both. The words cannot be too long: anything over 7 characters in total would not fit easily on numberplates with characters as legible as the present UK pattern.

/continued.....

6 US- style 'vanity plates' forming a complete word or message are highly memorable, but make no sense as a system designed to produce over 2m unique new numbers each year. The majority practice is to use groups of letters and numbers, issued sequentially, to provide the quantity required, plus a code for information about the vehicle. Across the world the referent of the code or abbreviation most often chosen by registration authorities to help make numbers more memorable, is the location of the vehicle's first registration or its current keeper's address. Italy and Germany abbreviate the names of cities or areas; France has a simple numerical code for Department; Eire has recently moved from the UK system of obscure alphabetical codes for local authority areas to a clearer abbreviation of cities and counties.

7 The present UK system is based on the local authority areas which carried out vehicle registration when it began in the 1900s, but the letter codes are not recognisable as relating to their area (e.g. JO for Oxford). If we were to design a new local area system for the UK, the first step would be to decide on how many areas and the boundaries. We could then identify the major city or town and devise a shortened form of its name (e.g. BIR for Birmingham, OXF for Oxford). Although this sounds - and indeed is, intellectually - a simple matter, there would need to be extensive consultation with the Police; and a lot of interests, local and other, would want to grind their axes. It would be a very public and controversial process. Maximum usefulness to the Police would probably imply re-registration with a new code when the keeper changes his address. This is what happens in Germany and other places where registration authorities are local rather than national. It would make the system much more expensive to run.

'Elimination potential'

8 In investigations following a crime involving a vehicle, a partially-remembered registration mark narrows down the choice

/of vehicles.....

/continued.....

CONFIDENTIAL

of vehicles to those whose marks contain the element remembered. Letters (rather than numbers) distributed evenly through the vehicle population give the greatest 'elimination potential', or fewest vehicles corresponding to a part-registration, and so this factor would tend to suggest a mark made up wholly of letters chosen at random - which would contain no code and would not score well for memorability. The year letter prefix offers significant benefits on 'elimination potential'; 'though in the first year of a new letter (e.g. F in the current year), by the end of the registration year there will be more vehicles on the road with that year's letter than any other years. Local codes also offer benefits, but the degree of benefit on 'elimination potential' increases with the number of local codes, whereas memorability probably does not.

9 'Elimination potential' is certainly helpful in cases where the whole vehicle register has to be combed. But it is unlikely to be preferred by most Police practitioners at the expense of features which enhance memorability. No examples are known of foreign systems deliberately designed to maximise 'elimination potential'.

Extra information: vehicle keepers

10 Setting aside memorability and 'elimination potential', an area code does not provide any information intrinsically helpful to the conduct of Police business, in the way an age-identifier does. Further codes in the mark providing immediate information about the keeper would be regarded as attractive compensation in some quarters in the Police, 'though would necessarily reduce 'elimination potential' again. Practical considerations suggest that a system incorporating information about keepers in vehicle registration marks would only work properly with a system of registration by keeper, not vehicle. Belgium and Switzerland register by keeper. A change of ownership leads to a change of registration mark, 'though this does complicate administration of the system somewhat. The disadvantage is that vehicle

/histories become....

/continued.....

histories become harder to trace, with greater risk of 'ringing' stolen vehicles and write-offs. The advantage is easier tracing of vehicle keepers for more automated enforcement of traffic offences etc., particularly if a stricter system of keeper liability were to be introduced. There are likely to be civil liberties objections.

Conclusions

11 If the year identifier is to be ruled out, either now or at some time in the future, there are two radical alternatives that would be likely to appeal to the Police: clear area codes that would be recognised and remembered in circumstances where no numbers or parts of numbers are remembered at present; and registration by keeper rather than vehicle. A choice between them could only be made after fuller consultation with the Police, plus research and experimental work to test the assumptions made above and check the practical problems posed by comparable foreign systems.

12 Introducing a radically new registration system into the UK would be complex and expensive. A complete new set of programmes would be needed for the DVLC computers. The cost would need further assessment but is likely to be £5 - £10 million to make the necessary changes, with additional running costs of a similar amount every year because of the need to re-register cars on every change of area, if this were a requirement as the Police would insist, or keeper. For an area code, parallel running of the existing system and the new system would probably be the most practical option. This would then need to continue indefinitely, if only to deal with the many vehicles preserved by enthusiasts with their existing numbers, some of them very valuable (and some to be sold by the Government, under current plans). This could not logically continue for a keeper-based system, under which all existing numbers and plates would need to be discarded and replaced. Some system of exemptions for historic vehicles might still be possible.

CONFIDENTIAL

FROM: M A WALLER

DATE: 5 December 1988

CHIEF SECRETARY

cc. Chancellor
Economic Secretary
Mr Anson
Mr Monck
Mr Phillips
Mr Burgner
Mrs Case
Mr Turnbull
Dr S Harding
Mr A Williams
Mr Call

VEHICLE REGISTRATION SYSTEM

1. Mr Channon's minute to the Prime Minister of 28 November reports the outcome of further work commissioned by the Prime Minister in Paul Gray's letter to Mr Channon's Private Office of 3 October. This work was intended to identify ways of amending the existing registration system to enhance its usefulness for law enforcement needs in a way which would be consistent with removing the impact on car sales and thus the trade figures of the current year identifier.

2. The general tone of the response is irritating Panglossian:

- (i) The DTI study of the effect of the year identifier (Annex 1) indicates pretty clearly the current August sales pattern is distinctly sub-optimal, coinciding as it does with the period of lowest UK production. A pattern of UK demand more like that found in Europe would seem to be better, thus pointing to the abolition of the year identifier. As the DTI paper admits, this would almost certainly increase the level of sourcing of total UK demand from UK plants. On top of this, the year identifier clearly distorts the pattern of UK demand in a way which is not consistent with the Government's general policy of removing market

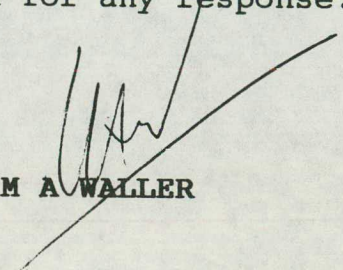
CONFIDENTIAL

distortions caused by regulations. The Department of Transport/DTI arguments against such a change reflect the self interest of the multinationals, like Ford and Vauxhall, as the current system helps them minimise stockholding costs for their whole international operation, not the UK part of it. And car dealers also support it because they believe it serves to enhance the overall size of the market. But my informal soundings suggest that Rover Group's objections to the current system are underplayed in the DTI paper.

- (ii) As far as law enforcement is concerned, the note by the Department of Transport (Annex 2) acknowledges that a change to the existing system will be required when the present alphabetical series is exhausted (15 years from now). But they argue that now or in the near future is not the time for change because of the high cost of transition and additional running costs. HE think there is something in these cost arguments since the DVLC computers have only relatively recently been replaced.

Conclusion

3. There is some disbenefit to the motor industry trade balance from the current year identifier system for car registrations. This is probably reasonably small but impossible to quantify in the absence of practical experience with a system which did not distort demand in this way. And leaving aside any adverse balance of trade effect, the system does sit oddly with the Government's general policy of avoiding distorting markets by regulation. That said, a move to an alternative system which avoided distortion but which met law enforcement requirements would be difficult to design and would involve additional costs which would in all probability be laid at the Treasury's door. Against this background I would not recommend that you press this issue any further. If you agree, there is no need for any response.



M A WALLER



EXCHEQUER	
-6 DEC 1988	
CST	
COPIES TO	

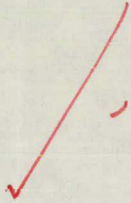
4/12

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 December 1988

Ch. Good
28
9/12



Dear Sir,

THE VEHICLE REGISTRATION LETTER

The Prime Minister was grateful for your Secretary of State's minute of 28 November and the attached notes by officials.

The Prime Minister has noted that it will in any event be necessary to consider a major change to the registration system when the present alphabetical series is exhausted in some 15 years. She also continues to be concerned about the possible effects on trade of the current system. She would therefore be grateful if your Secretary of State could, as he suggests, put a paper to E(A) for discussion in the Spring. This should set out the options for change; and provide the basis for discussion of the right system to plan for when the present system comes to an end and the best timing for bringing that change into effect.

I am copying this letter to Alex Allan (HM Treasury), Philip Mawer (Home Office), Neil Thornton (Department of Trade and Industry) and to Sir Robin Butler.

(PAUL GRAY)

Roy Griffins, Esq.,
Department of Transport.

[Handwritten signature]

I agree, but have added a "just in case" sentence to the first para. of the draft letter.

FROM: S J FLANAGAN
DATE: 21 December 1988

- 1. MR GILLHOOLY
- 2. CHANCELLOR

The RPI effects of these proposals are indirect, and impossible to assess accurately. But we are confident that they are pretty insignificant.

- Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Mr Scholar
- Mr Culpin
- Mr Matthews
- Mr Revolta
- Mr Macpherson
- Mr Michie
- PS/C&E

OK 1/12

Ch/content to write as drafted?

VEHICLE EXCISE DUTY

OK or [initials]

Mr Channon wrote to you on 21 October about his main proposals for VED, except the changes for Hackney tax classes to which you provisionally agreed in your letter of 13th September. I apologise for the delay in submitting advice. We have been discussing Mr Channon's proposals with his officials.

2. Mr Channon makes five proposals:

- That most VED rates (including that for cars) should remain unchanged;
- that VED for "special types" (about 400 vehicles used for transporting extra heavy or indivisible loads) should be increased from £1,600 to £3,100. The yield would be £600,000 a year;
- that VED for rigid heavy goods vehicles (HGVs) should be increased to bring the total motoring tax on these vehicles more closely into line with that paid by articulated HGVs. The yield would be about £50 million a year;
- that there is not much scope for simplifying the structure of HGV taxation but that his officials should look at it with a view to at least making the tables less daunting;

- that when determining fuel duties, you should first decide the total increase in measuring taxation you wish to raise, and then offset the VED increases.

Main VED rates

3. General policy on motoring taxation has been that vehicles should at least cover their track costs through a mixture of VED and fuel duties. You have been switching the balance from VED to fuel duties, principally because VED has a persistent avoidance problem. This has also had the effect of reducing the fixed costs of vehicle operators. Placing more emphasis on fuel duties means, too, that those who actually use the roads most generally pay most tax.

4. Mr Channon proposes that you should not increase VED rates, except where it is necessary to provide an equitable balance between different vehicle classes. This would mean that you would not have increased car VED since the 1985 Budget, when you set it at £100.

5. We have no objection to this proposal. VED would still yield £2.8 billion in 1989-90: about a quarter of the total motoring taxation.

Special Types

6. You created the new "special types" class in last year's Budget. There were about 400 of these vehicles, which are used to transport abnormal or indivisible loads. Up until 1988 these paid £130 a year, but did at least as much damage to roads as the heaviest HGVs, which pay £3,100. Last year you set a new special types duty at £1,600, and it was made clear that this was only a first step. Mr Channon now proposes to bring the duty up to the full £3,100. It seems sensible to get this over with.

HGV Tax Class Simplification

7. You asked Mr Channon in your letter of 30 September whether there was any room for a simplification of goods vehicles VED along the lines of the proposed Hackneys simplification. He thinks probably not. The two-tonne bands, he says, all represent differences in track costs, and they are about to be embedded in a European Directive. The number of axles also affects track costs and is easy to assess. As the vehicles concerned also carry plated weights, Mr Channon contends that there is little room for dispute about the bands in which they should properly be placed. But he has nonetheless asked his officials to look at ways of simplifying the structure, and accepts that the VED tables (copy attached) are particularly daunting.

8. It seems rather unfair to put the blame on the tables. They are undoubtedly long, and there is some room for editing, but given that there are some 345 different VED bands for HGVs, including farmers' and showmans' vehicles (albeit many of them at the same rates), this could hardly be otherwise.

9. There is more force in Mr Channon's other arguments. Even so, there is likely to be some room for simplification. Even at present, the same rate of duty is sometimes charged across different VED bands, so the use of the two-tonne band in European legislation is less of a restriction than it may seem. The use of plated weights is likely to reduce abuse, but it would seem unlikely that it would eliminate it altogether. The fewer bands there are, the easier they are to enforce. Likewise, the number of axles a vehicle has might be fairly obvious, but then so is the number of seats in a coach, and Mr Channon was content simplify the rules there.

10. Left to their own devices, DTp may not come up with anything substantial. We therefore suggest that you note what Mr Channon says, but suggest that the possibilities for simplification may be stronger than he fears. You might also add that we would of course be happy to discuss options at official level.

Rigid HGVs

11. Due to changing patterns of use and the fact that they consume more fuel, articulated HGVs pay proportionately more in total motoring taxation than their rigid counter parts. You increased the VED rates for some of the heaviest rigids by up to 10 per cent last year, against a general freeze of VED, but the increase in derv duty meant that the disparity remained. Next year it is expected to total about £140 million.

12. Mr Channon proposes making up £50 million of this difference by increases in VED for rigids of up to 30 per cent. He acknowledges that this would mean at least one more increase of the same magnitude (it would probably require two more) at a later date, but he does not want small operators, in particular, to face a single round of overwhelming VED increases.

13. It might be neater to make good the disparity at one go. But individual rigid HGV operators could see their VED costs almost double over night. I understand that this consideration weighed heavily with Mr Bottomley, in particular. Nor, on the other hand, are they likely to welcome unheralded substantial increases in future. The best course might therefore be to stagger the full £140 ^{million} increase over three years, the first stage being a £50 million increase, but to make clear from the initial announcement that you intended to proceed with all three stages. This would give rigid HGV operators time to adjust, but would also leave them in no doubt as to the magnitude of their ultimate liability. We suggest you put this to Mr Channon, and ask him to get his officials to work out the details.

14. As a final consideration, Mr Channon suggests that if you were to decide not to increase motoring taxation next year, these increases should not go ahead (rather than, say, offsetting a reduction in fuel duties). Instead he would wish to see a more modest package of increases totalling about £18 million. You need not take any decisions on this now, and your ultimate decision will depend on what you decide to do with excise duties generally.

Offsetting VED against fuel duty

15. You said in last years Budget statement "I propose once again to leave the main rates of vehicle excise duty unchanged. To recover the revenue forgone, I propose increases in petrol and derv duty over and above the rate of inflation...". Mr Channon now proposes building on this. He suggests that you decide the general level of increase that you wish to see in motoring taxation, then offset the £70 million VED increase he proposes, and make up the remainder through increases in fuel duties. As the vehicles involved all run on derv, it should be derv duties that receive the offset.

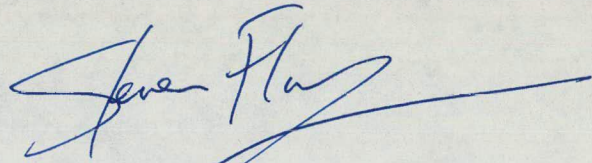
16. This would not tie you to any particular level of increase. You could, for example decide that you will increase motoring taxation by an amount that would, when VED was netted off, produce indexation of fuel duties. Or you could, perhaps, decide to index motoring taxation as a whole, which would produce fuel duty increases of about 8%. Or you could pick other any combination you choose.

17. The point of Mr Channon's proposal is to avoid a repeat of what happened to rigids last year, when increases intended to help restore the balance between artics and rigids were more than offset by increases in fuel duty, thanks to artics' heavier fuel consumption. In an attempt to avoid this, DTp officials have assumed a revalorisation of motoring taxation as a whole of between 4.5 and 6.5% in ~~up~~ their proposals for new HGV and Hackney rates, The calculations are apparently not very sensitive to the degree of revalorisation - a 5 percentage point difference produces only about a pound or two difference to the level of each individual licence - but if derv in particular were to be revalorised by a radically different amount, it might throw out DTp's calculations.

18. Whether or not Mr Channon's proposal makes any difference therefore depends on what you decide to do on excise duties generally. So at this stage, we suggest that you simply say that you will of course take the VED increases into account in setting levels of fuel duty.

Conclusions

19. You will presumably not wish to tie your hands completely before taking decisions on excise duty levels generally, but we suggest that you tell Mr Channon that you agree provisionally to his proposals for a freeze on most VED rates, with increases for special types and rigid HGVs ; that you look forward to seeing the results of his officials' review of the prospects for simplifying HGV taxation; and that you will take VED increases into account when setting fuel duty rates. A draft letter is attached.

A handwritten signature in blue ink, appearing to read 'S J Flanagan', with a long horizontal flourish extending to the right.

S J FLANAGAN

pl type final for ch

DRAFT LETTER FROM THE CHANCELLOR OF THE EXCHEQUER TO THE SECRETARY OF STATE FOR TRANSPORT

VEHICLE EXCISE DUTY

I am sorry you have not had an earlier reply.

Thank you for your letter of 21 October. I agree in principle that we should not increase the main VED rates this year, and that the rate for special types should be brought into line with that for the heaviest HGVs.

(As you will appreciate, however, I may become ill) I will of course not reach a final decision until much nearer the Budget, though I would hope

On rigid HGVs, I accept that to increase the VED rates by enough to wipe out the full disparity at one go between their total payments of VED and fuel duty and that paid by *articulated lorries* would be likely to cause *considerable* difficulty for small operators, *in particular.*

But I think we should also give them adequate warning that a smaller increase this year would not be the end of the story. I am therefore minded to announce that we intend to increase rigid VED until we have eliminated the differential, but that the increase would be staggered over two or three years, with the first increase being of the £50 million level you suggest. This would give rigid HGV operators time to adjust, but also leave them in no doubt as to the magnitude of their ultimate liability, although the precise figures will of course depend on the increases in fuel duties over the same period.

I can confirm that I will of course take the VED increases we have agreed into account in setting the levels of derv duty for 1989-90.

CONFIDENTIAL

I am glad that you have asked your officials to look into the on simplification of the HGV tax bands. I agree that the tables could be made less daunting, but it may well prove that the basic problem is simply the very large number of bands, and any substantive simplification would clearly be welcome. Perhaps your officials could discuss this with mine.

I will write again when I have reached final decisions on duty levels.

[N.L]

Rates of Vehicle Excise Duty

Department of Transport

V149
Rev. March 88

The following tables give the rates of vehicle excise duty which have effect from 16 March 1988. The notes on the vehicle licence application forms explain how and where to apply. Please read them carefully.

1. PRIVATE / LIGHT GOODS VEHICLES (ie. goods vehicles not over 1,525 kgs unladen)

	12 month rate £	6 month rate £
Private Vehicles, Light Vans, Estate Cars etc.	100.00	55.00
Vehicles constructed before 1.1.47	60.00	33.00
Light Goods Farmers	75.00	41.25
Light Goods Showman's	75.00	41.25

2. BICYCLES, TRICYCLES, PEDESTRIAN CONTROLLED VEHICLES (not over 450 kgs)

	Over	Not Over	12 month rate £	6 month rate £
Motorcycles (with or without sidecar)	-	150cc	10.00	-
	150cc	250cc	20.00	-
	# 250cc	-	40.00	22.00
Tricycles	-	150cc	10.00	-
	150cc	-	40.00	22.00
Pedestrian Controlled Vehicles (other than mowing machines)				
3 Wheelers	-	150cc	10.00	-
	150cc	-	20.00	-
3 Wheelers	-	-	20.00	-
More than 3 wheels	-	-	20.00	-

If constructed before 1.1.33 and weighs not more than 101.6 kgs the rate is £20.00.

3. HACKNEY CARRIAGES

Seats Up to	12 month rate £	6 month rate £	Seats Up to	12 month rate £	6 month rate £	Seats Up to	12 month rate £	6 month rate £	Seats Up to	12 month rate £	6 month rate £
20	52.50	28.85	37	70.35	38.70	54	88.20	48.50	71	106.05	58.35
21	53.55	29.45	38	71.40	39.25	55	89.25	49.10	72	107.10	58.90
22	54.60	30.05	39	72.45	39.85	56	90.30	49.65	73	108.15	59.50
23	55.65	30.60	40	73.50	40.40	57	91.35	50.25	74	109.20	60.05
24	56.70	31.20	41	74.55	41.00	58	92.40	50.80	75	110.25	60.65
25	57.75	31.75	42	75.60	41.60	59	93.45	51.40	76	111.30	61.20
26	58.80	32.35	43	76.65	42.15	60	94.50	51.95	77	112.35	61.80
27	59.85	32.90	44	77.70	42.75	61	95.55	52.55	78	113.40	62.35
28	60.90	33.50	45	78.75	43.30	62	96.60	53.15	79	114.45	62.95
29	61.95	34.05	46	79.80	43.90	63	97.65	53.70	80	115.50	63.50
30	63.00	34.65	47	80.85	44.45	64	98.70	54.30			
31	64.05	35.25	48	81.90	45.05	65	99.75	54.85			
32	65.10	35.80	49	82.95	45.60	66	100.80	55.45	For each additional seat		
33	66.15	36.40	50	84.00	46.20	67	101.85	56.00		1.05	
34	67.20	36.95	51	85.05	46.80	68	102.90	56.60			
35	68.25	37.55	52	86.10	47.35	69	103.95	57.15			
36	69.30	38.10	53	87.15	47.95	70	105.00	57.75			

4. GENERAL HAULAGE VEHICLES

Unladen Weight Up to but not over	12 month rate £	6 month rate £
2 tons (2,032.1 kgs)	179.00	98.45
4 tons (4,064.2 kgs)	322.00	177.10
6 tons (6,096.3 kgs)	465.00	255.75
7.25 tons (7,366.4 kgs)	608.00	334.40
8 tons (8,128.4 kgs)	743.00	408.65
9 tons (9,144.5 kgs)	869.00	477.95
10 tons (10,160.5 kgs)	995.00	547.25
11 tons (11,176.5 kgs)	1,138.00	625.90
For each additional ton or part of a ton (ton = 1,016.1 kgs)	142.00	-

5. SHOWMAN'S HAULAGE VEHICLES

Unladen Weight Up to but not over	12 month rate £	6 month rate £
7.25 tons (7,366.4 kgs)	151.00	83.05
8 tons (8,128.4 kgs)	180.00	99.00
10 tons (10,160.5 kgs)	212.00	116.60
11 tons (11,176.5 kgs)	244.50	134.45
12 tons (12,192.6 kgs)	277.00	152.35
13 tons (13,208.6 kgs)	309.50	170.20
14 tons (14,224.7 kgs)	342.00	188.10
15 tons (15,240.7 kgs)	374.50	205.95
For each additional ton or part of a ton (ton = 1,016.1 kgs)	32.50	-

* The six month rate of duty is eleven - twentieths of the corresponding annual rate, rounded up or down to the nearest 5p, 2.5p being rounded down.

6. AGRICULTURAL MACHINES, WORKS TRUCKS ETC.

	12 month rate £
Agricultural Machines (Locomotive Ploughing Engines, Tractors, Agricultural Tractors or other Agricultural Engines)	16.00
Fishermen's Tractors	16.00
Digging Machines	16.00
Mobile Cranes	16.00
Works Trucks	16.00

7. TRADE LICENCES

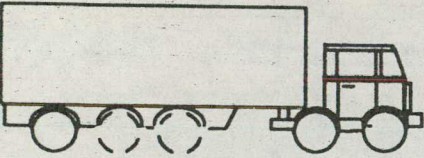
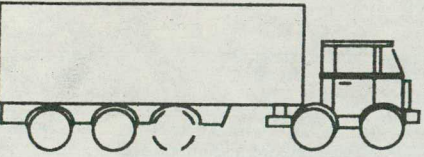
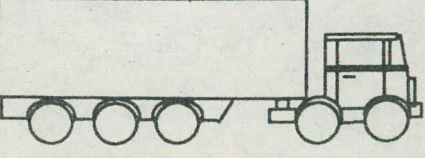
	12 month rate £	6 month rate £
Trade Licences available for all vehicles	85.00	46.75
Trade Licences available only for:		
Bicycles	17.00	9.35
Tricycles	17.00	9.35
Pedestrian Controlled	17.00	9.35

THE TERM "PLATEABLE" IS NOT APPLICABLE IN NORTHERN IRELAND

8. PLATEABLE RIGID AND PLATEABLE ARTICULATED VEHICLES not over 12,000 kgs gross

Gross Weight / Train Weight (kgs)		Taxation Class					
		HGV		HGV Farmers		HGV Showman's	
Over	Not Over	12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £
-	7,500	130.00	71.50 ³¹	90.00	49.50	90.00	49.50
7,500	12,000	290.00	159.50 ³²	175.00	96.25	90.00	49.50

9. PLATEABLE ARTICULATED GOODS VEHICLES over 12,000 kgs gross

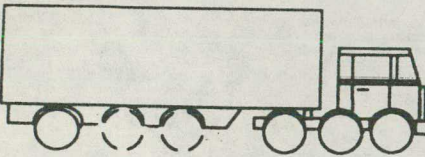
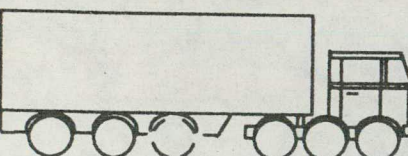
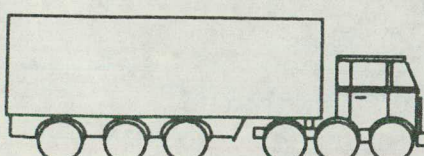
Type of Vehicle	Gross Train Weight (kgs)		Taxation Class					
			HGV		HGV Farmers		HGV Showman's	
	Over	Not Over	12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £
TABLE A 2 axled tractive unit used with any semi - trailer(s) (1,2,3 or more axles) 	12,000	14,000	470.00	258.50 ¹	280.00	154.00	120.00	66.00
	14,000	16,000	590.00	324.50 ²	355.00	195.25	150.00	82.50
	16,000	18,000	690.00	379.50 ³	415.00	228.25	175.00	96.25
	18,000	20,000	810.00	445.50 ⁴	485.00	266.75	205.00	112.75
	20,000	22,000	940.00	517.00 ⁵	565.00	310.75	235.00	129.25
	22,000	23,000	1,000.00	550.00 ⁶	600.00	330.00	250.00	137.50
	23,000	25,000	1,150.00	632.50 ⁷	690.00	379.50	290.00	159.50
	25,000	26,000	1,150.00	632.50 ⁷	690.00	379.50	290.00	159.50
	26,000	28,000	1,150.00	632.50 ⁷	690.00	379.50	290.00	159.50
	28,000	29,000	1,210.00	665.50 ⁸	725.00	398.75	305.00	167.75
	29,000	31,000	1,680.00	924.00 ⁹	1,010.00	555.50	420.00	231.00
	31,000	33,000	2,450.00	1,347.50 ¹⁰	1,470.00	808.50	615.00	338.25
	33,000	34,000	2,450.00	1,347.50 ¹⁰	1,470.00	808.50	615.00	338.25
	34,000	36,000	2,750.00	1,512.50 ¹¹	1,650.00	907.50	680.00	370.50
36,000	38,000	3,100.00	1,705.00 ¹²	1,860.00	1,023.00	775.00	420.25	
TABLE B 2 axled tractive unit used with 2 or more axled semi - trailer(s) only * 	12,000	14,000	420.00	231.00 ¹³	250.00	137.50	105.00	57.75
	14,000	16,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50
	16,000	18,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50
	18,000	20,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50
	20,000	22,000	550.00	302.50 ¹⁵	330.00	181.50	140.00	77.00
	22,000	23,000	620.00	341.00 ¹⁶	370.00	203.50	155.00	85.25
	23,000	25,000	780.00	429.00 ¹⁷	470.00	258.50	195.00	107.25
	25,000	26,000	870.00	478.50 ¹⁸	520.00	286.00	220.00	121.00
	26,000	28,000	1,090.00	599.50 ¹⁹	655.00	360.25	275.00	151.25
	28,000	29,000	Concessionary rates do not apply at these weights.					
	29,000	31,000						
	31,000	33,000						
	33,000	34,000						
	34,000	36,000						
36,000	38,000	Please see Table A above.						
TABLE C 2 axled tractive unit used with 3 or more axled semi - trailer(s) only * 	12,000	14,000	420.00	231.00 ¹³	250.00	137.50	105.00	57.75
	14,000	16,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50
	16,000	18,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50
	18,000	20,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50
	20,000	22,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50
	22,000	23,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50
	23,000	25,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50
	25,000	26,000	530.00	291.50 ²⁰	320.00	176.00	135.00	74.25
	26,000	28,000	720.00	396.00 ²¹	430.00	236.50	180.00	99.00
	28,000	29,000	820.00	451.00 ²²	490.00	269.50	205.00	112.75
	29,000	31,000	1,050.00	577.50 ²³	630.00	346.50	265.00	145.75
	31,000	33,000	1,680.00 #	924.00 #	1,010.00 #	555.50 #	420.00 #	231.00 #
	33,000	34,000	2,250.00 #	1,237.50 #	1,350.00 #	742.50 #	565.00 #	310.75 #
	34,000	36,000	Concessionary rates do not apply at these weights. Please see Table A above.					
36,000	38,000							

CONCESSIONARY RATES

* Licences taken out at these rates do not permit the use of semi-trailers with fewer axles.
 It is an offence to use a vehicle with a licence at the wrong rate of duty.
 # At this rate the tractive unit may also be used with one-axle semi-trailers provided it does not exceed the appropriate Construction and Use weight limits

"LATEABLE" IS NOT APPLICABLE IN NORTHERN IRELAND

10. PLATEABLE ARTICULATED GOODS VEHICLES over 12,000 kgs gross

Type of Vehicle	Gross Train Weight (kgs)		Taxation Class						
	Over	Not Over	HGV		HGV Farmers		HGV Showman's		
			12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £	
TABLE D 3 or more axled tractive unit used with any semi-trailer(s) (1,2,3 or more axles) 	12,000	14,000	420.00	231.00 ¹³	250.00	137.50	105.00	57.75	
	14,000	16,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	16,000	18,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	18,000	20,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	20,000	22,000	550.00	302.50 ¹⁵	330.00	181.50	140.00	77.00	
	22,000	23,000	620.00	341.00 ¹⁶	370.00	203.50	155.00	85.25	
	23,000	25,000	780.00	429.00 ¹⁷	470.00	258.50	195.00	107.25	
	25,000	26,000	870.00	478.50 ¹⁸	520.00	286.00	220.00	121.00	
	26,000	28,000	1,090.00	599.50 ¹⁹	655.00	360.25	275.00	151.25	
	28,000	29,000	1,210.00	665.50 ²⁰	725.00	398.75	305.00	167.75	
	29,000	31,000	1,680.00	924.00 ²¹	1,010.00	555.50	420.00	231.00	
	31,000	33,000	2,450.00	1,347.50 ²²	1,470.00	808.50	615.00	338.25	
	33,000	34,000	2,450.00	1,347.50 ²²	1,470.00	808.50	615.00	338.25	
	34,000	36,000	2,450.00	1,347.50 ²²	1,470.00	808.50	615.00	338.25	
36,000	38,000	2,730.00	1,501.50 ²³	1,640.00	902.00	685.00	376.75		
TABLE E 3 or more axled tractive unit used with 2 or more axled semi-trailer(s) only * 	12,000	14,000	420.00	231.00 ¹³	250.00	137.50	105.00	57.75	
	14,000	16,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	16,000	18,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	18,000	20,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	20,000	22,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	22,000	23,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	23,000	25,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	25,000	26,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	26,000	28,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	28,000	29,000	520.00	286.00 ¹⁶	310.00	170.50	130.00	71.50	
	29,000	31,000	640.00	352.00 ¹⁷	385.00	211.75	160.00	88.00	
	31,000	33,000	970.00	533.50 ¹⁸	580.00	319.00	245.00	134.75	
	33,000	34,000	1,420.00	781.00 ¹⁹	850.00	467.50	355.00	195.25	
	34,000	36,000	2,030.00	1,116.50 ²⁰	1,220.00	671.00	510.00	280.50	
36,000	38,000	Concessionary rates do not apply at these weights. See Table D above.							
TABLE F 3 or more axled tractive unit used with 3 or more axled semi-trailer(s) only * 	12,000	14,000	420.00	231.00 ¹³	250.00	137.50	105.00	57.75	
	14,000	16,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	16,000	18,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	18,000	20,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	20,000	22,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	22,000	23,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	23,000	25,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	25,000	26,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	26,000	28,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	28,000	29,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	29,000	31,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	31,000	33,000	440.00	242.00 ¹⁴	265.00	145.75	110.00	60.50	
	33,000	34,000	550.00	302.50 ¹⁵	330.00	181.50	140.00	77.00	
	34,000	36,000	830.00	456.50 ¹⁶	500.00	275.00	210.00	115.50	
36,000	38,000	1,240.00	682.00 ¹⁷	745.00	409.75	310.00	170.50		

CONCESSIONARY RATES

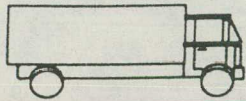
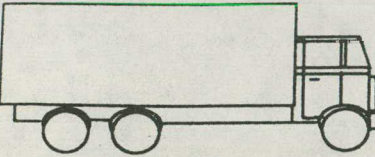
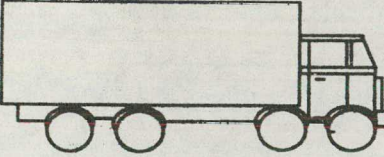
* Licences taken out at these rates do not permit the use of semi-trailers with fewer axles. It is an offence to use a vehicle with a licence at the wrong rate of duty.

1. RECOVERY VEHICLES

Recovery Vehicles	12 month rate £	6 month rate £
	50.00	27.50

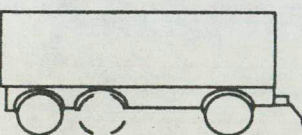
THE TERM "PLATEABLE" IS NOT APPLICABLE IN NORTHERN IRELAND

12 PLATEABLE RIGID GOODS VEHICLES over 12,000 kgs gross
 (Vehicles used with plateable trailers may be subject to additional trailer duty, see Table 13 below)

Type of Vehicle	Gross Weight (kgs)		Taxation Class					
			HGV		HGV Farmers		HGV Showman's	
	Over	Not Over	12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £
Rigid vehicle with 2 axles 	12,000	13,000	410.00	225.50 ¹	245.00	134.75	105.00	57.75
	13,000	14,000	570.00	313.50 ²	340.00	187.00	145.00	79.75
	14,000	15,000	740.00	407.00 ³	445.00	244.75	185.00	101.75
	15,000	17,000	1,130.00	621.50 ⁴	680.00	374.00	285.00	156.75
Rigid vehicle with 3 axles 	12,000	13,000	320.00	176.00 ⁵	190.00	104.50	90.00	49.50
	13,000	14,000	340.00	187.00 ⁶	205.00	112.75	90.00	49.50
	14,000	15,000	340.00	187.00 ⁶	205.00	112.75	90.00	49.50
	15,000	17,000	340.00	187.00 ⁶	205.00	112.75	90.00	49.50
	17,000	19,000	540.00	297.00 ⁷	325.00	178.75	135.00	74.25
	19,000	21,000	730.00	401.50 ⁸	440.00	242.00	185.00	101.75
	21,000	23,000	1,000.00	550.00 ⁹	600.00	330.00	250.00	137.50
23,000	24,390	1,780.00	979.00 ¹⁰	1,070.00	588.50	445.00	244.75	
Rigid vehicle with 4 or more axles 	12,000	13,000	320.00	176.00 ⁵	190.00	104.50	90.00	49.50
	13,000	14,000	340.00	187.00 ⁶	205.00	112.75	90.00	49.50
	14,000	15,000	340.00	187.00 ⁶	205.00	112.75	90.00	49.50
	15,000	17,000	340.00	187.00 ⁶	205.00	112.75	90.00	49.50
	17,000	19,000	340.00	187.00 ⁶	205.00	112.75	90.00	49.50
	19,000	21,000	340.00	187.00 ⁶	205.00	112.75	90.00	49.50
	21,000	23,000	490.00	269.50 ⁷	295.00	162.25	125.00	68.75
	23,000	25,000	690.00	379.50 ⁸	415.00	228.25	175.00	96.25
	25,000	27,000	1,110.00	610.50 ⁹	665.00	365.75	280.00	154.00
	27,000	29,000	1,630.00	896.50 ¹⁰	980.00	539.00	410.00	225.50
29,000	30,490	2,680.00	1,474.00 ¹¹	1,610.00	885.50	670.00	368.50	

13. TRAILER DUTY

Where the drawing vehicle has a plated weight over 12,000 kgs gross AND draws laden plateable trailers over 4,000 kgs gross weight additional trailer duty is payable. See table below.

	Gross Trailer Weight (kgs)		Taxation Class					
			Trailer HGV		Trailer HGV Farmers		Trailer HGV Showman's	
	Over	Not Over	12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £
	4,000	8,000	80.00	44.00	80.00	44.00	80.00	44.00
	8,000	10,000	100.00	55.00	100.00	55.00	80.00	44.00
	10,000	12,000	130.00	71.50	130.00	71.50	80.00	44.00
	12,000	14,000	180.00	99.00	180.00	99.00	80.00	44.00
	14,000	-	355.00	195.25	355.00	195.25	80.00	44.00

EXAMPLE: A 2 - axled vehicle plated at 16,260 kgs which draws trailers plated at 8,130 kgs would pay £1,130.00 (Table 12) plus £100.00 (Table 13) annual rate.

NOTE: Vehicles which draw trailers below 4,000 kgs do not come within a trailer taxation class and no additional trailer duty is payable on them.

14. NON - PLATEABLE AND "SPECIAL TYPES" VEHICLES (GREAT BRITAIN)
 "SPECIAL TYPES" AND VEHICLES NOT SUBJECT TO TESTING (NORTHERN IRELAND)

GREAT BRITAIN

Goods vehicles over 1,525 kgs unladen weight which (a) do not fall within a class to which the Plating and Testing Regulations apply eg. dual purpose vehicles, tower wagons, or (b) do not comply with the Construction and Use Regulations but are authorised for road use under Section 42 of the Road Traffic Act 1972 ie. "Special Types" vehicles.

NORTHERN IRELAND

Goods vehicles over 1,525 kgs unladen weight which (a) do not fall within a class to which the Goods Vehicles (Certification) Regulations (Northern Ireland) apply eg. tower wagons, or (b) do not comply with the Construction and Use Regulations but are authorised for road use under Article 29 (3) of the Road Traffic (Northern Ireland) Order 1981 ie. "Special Types" vehicles.

Taxation Class					
Restricted HGV		Restricted HGV Farmers		Restricted HGV Showman's	
12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £
130.00	71.50	90.00	49.50	90.00	49.50

CONFIDENTIAL



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

CH/EXCHEQUER	
REC.	22 DEC 1988
ACTION	CST
COPIES TO	

✓ 2/12

PP

22 DEC 1988

BF 15 Japhtha
ORV

Paul Gray Esq
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

Dear Mr Gray

THE VEHICLE REGISTRATION LETTER

Thank you for your letter of 5 December.

My Secretary of State has now set in hand the preparation of a paper on this subject for E(A) in the early part of next year, on the lines suggested by the Prime Minister.

I have, however, been asked to draw to your attention the fact that it is hoped to include provision for the Department's proposals to sell attractive vehicle registration numbers in the 1989 Finance Bill. These proposals were given policy approval by H on 27 July and were the subject of a bid, accepted by QL, for a private members handout Bill to be ready for the start of this session. The only reason they did not go forward is that the House authorities determined at a late stage that the provisions were not suitable for such a Bill, but by the same token (and contrary to previous advice) were suitable for a Finance Bill. The Financial Secretary agreed in principle to their inclusion in the 1989 Bill in a letter of 8 November to my Secretary of State.

Many potential amendments to the current numbering system would still produce attractive sales prospects. If, however, there were any possibility of an early and fundamental change to the system, that might have an impact on the sale proposals. My Secretary of State therefore thinks that, subject to the pressure of other business, his paper might usefully be taken before the Budget.

I am copying this letter to Alex Allan (HM Treasury), Philip Mawer (Home Office), Neil Thornton (DTI), Alison Smith in the Lord President's Office and to Sir Robin Butler.

Yours sincerely,

K. Owell

PP R J GRIFFINS
Private Secretary

CONFIDENTIAL

CONFIDENTIAL



CH/EXCHEQUER	
REC.	03 JAN 1989
ACTION	CST
COPIES TO	

✓ 3/1

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 January 1989

1. Jonathan
2. pnp

THE VEHICLE REGISTRATION SCHEME

Thank you for your letter of 22 December, which the Prime Minister has seen and noted.

I am copying this letter to Alex Allan (HM Treasury), Philip Mawer (HOME Office), Neil Thornton (DTI), Alison Smith in the Lord President's Office and to Sir Robin Butler.

PAUL GRAY

R. J. Griffins, Esq.,
Department of Transport

CONFIDENTIAL

67 6/2



FROM: J M G TAYLOR
DATE: 11 January 1989

5666

67 26/1

MR FLANAGAN

Jimmy D.

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Mr Scholar
- Mr Culpin
- Mr Gilhooly
- Mr Matthews
- Mr Revolta
- Mr Macpherson
- Mr Michie
- PS/C&E

P. se Edward

Jonathan
 Spoke to Mr Michie (who is dealing)
 He is still waiting to see
 a copy of OTP Report (VED on Lames)
 before he puts something up.
 ps. I have asked EST's Tony 26/1
 to chase OTP for report.

VEHICLE EXCISE DUTY

The Chancellor was most grateful for your note of 21 December, and the enclosed draft letter.

2. As you will have seen, VED was discussed at Dorneywood, and the Economic Secretary will be considering further some of the issues raised. Some of the points in the letter have, therefore, been overtaken. Perhaps you could, in due course, provide a revised draft?

J

J M G TAYLOR

BUDGET CONFIDENTIAL

ECONOMIC SECRETARY

FROM: ROBERT CULPIN
DATE: 18 January 1988

cc: **Chancellor**
Chief Secretary
Financial Secretary
Paymaster General
Sir Peter Middleton
Sir Terence Burns
Mr Anson
Mr Scholar
Mrs Case
Mr Gilhooly
Mr Matthews
Mr Michie
Mrs Chaplin
Mr Tyrie
Mr Call

Mr Unwin
Mr Jefferson Smith) C&E

Handwritten notes in red ink:
Mr X - for d Lane
No reply on this
for the
for the
for the

VED ON LORRIES

I attach George Michie's answer to the question you raised at Dorneywood.

2. VED is a bit of a mess. The policy is sensible: vehicles should pay at least enough in tax (VED plus fuel duty) to cover the damage they do to the roads. But the application is rum.

(a) Some, such as buses and coaches, barely cover their "track costs" at all. Others, such as cars, cover their track costs three and a half times over. There is no great rhyme or reason to the distribution over the spectrum.

BUDGET CONFIDENTIAL

(b) Despite the by-and-large nature of this result, the Department of Transport insists on applying the policy in minute detail. There are pages and pages of different VED rates for different vehicles. The schedule looks like something out of Min Tech, or Sir Arthur Cockfield's Price Code.

3. You have made a lot of progress this year. You have persuaded the Department of Transport to shrink the number of rates for "hackney carriages" from over 60 to 5, and the number for agricultural machines from 6 to 1. And this last change should greatly simplify the business of policing the use of rebated fuel.

4. We have pressed for a parallel simplification of the VED rates for heavy goods vehicles, but so far without success. The question now is whether we should try to force the pace in the Budget.

5. The specific question you asked at Dorneywood was why we should go on distinguishing between rigid and articulated goods vehicles, if they are the same size and weight. They look the same, and must do much the same job. Why should they pay different amounts of VED just because they tend, on average, to do different numbers of miles on different sorts of roads?

6. I think I am persuaded that this is not quite as peculiar as it looks. Within the policy we are operating, the test is not what a vehicle looks like, but what, in practice, it is used for. So for example:

- we charge different rates of VED for cars and taxis, even though exactly the same vehicle may be used as either a car or a taxi; and

BUDGET CONFIDENTIAL

- we charge different rates of VED for buses and coaches, even though, again, exactly the same vehicle may be used as either a bus or a coach.

This is not patently absurd if cars and taxis, buses and coaches, rigid and articulated lorries do different amounts of damage to the roads.

7. For what it is worth, Mr Michie's note suggests that this sort of thing is approved Euro-policy for heavy trucks.

8. If you can swallow the major premise that it is a sensible policy, there is then no doubt that rigid goods vehicles are different from articulated ones. Whatever the reason, the fact is that they are used in a way which chews up the roads to a greater extent than their articulated equivalents. So they ought, on the evidence, to pay more tax.

9. Whether we need as many categories of VED as we have got is another question. I don't think we do: a deregulatory Government should surely do much more averaging. But the Department of Transport is clearly locked into fine-tuning "track costs", and indeed this has become a major Civil Service industry. (I see you made eloquent speeches in defence of it in last year's Finance Bill Committee.)

10. I am not completely convinced of the logic of it all, but I don't think it worth rocking the boat for this Budget. We increased the VED on the heaviest rigid goods vehicles in the last Budget, and seem to have got away with it. Ministers have created some expectation that there will be a further increase this time. It would do something to even out the tax burden on different heavy trucks. I should be inclined to go ahead with it.

BUDGET CONFIDENTIAL

11. My instinct, therefore, is to bank the increase Mr Channon is offering, and insist that, after the Budget, we have another go at doing for lorries what we have now agreed to do for buses, coaches and taxis: simplify the tax by reducing the plethora of rates.

12. We do not need to decide now what the precise increases for heavy goods vehicles should be, but we do need to decide whether to make some increases. The Chancellor ought to give Mr Channon that decision soon.

A handwritten signature in black ink, consisting of a large, stylized capital letter 'R' with a cursive flourish extending from the top, and a smaller capital letter 'C' positioned below and to the right of the 'R'.

ROBERT CULPIN

FROM: R G MICHIE
DATE: 17 January 1989

MR CULPIN

cc Mr Gilhooly
Mr Matthews
Miss Hay
Mr Macpherson
Mr Wilson
Mr Lawton
Mr Flanagan
Miss Pollock
Mr Ford

POST-DORNEYWOOD REMITS

You asked me to follow up the Economic Secretary's question as to why it is necessary to differentiate between rigid and articulated HGVs for VED purposes. The Economic Secretary is keen to see a reduction in the number of tax classes, and one way of doing this would be to merge the separate classes for rigids and artics into one.

Track Cost Allocation

2. Track cost policy is to allocate all expenditure on building, maintaining and policing roads among the classes of vehicle according to the use they make of those roads: the use being determined largely by roadside surveys undertaken by the Department of Transport.

3. The track costs of vehicles with ostensibly similar characteristics can vary considerably: the primary reason for this is the type of road which the vehicles use. Transport surveys indicate that rigids tend to use non-motorway roads which have maintenance costs up to five times that of motorways which are used more by artics. The effect of this is that most classes of rigid HGVs have significantly higher track costs than do artics (see column III of the Table attached).

Motoring Taxation v Track Costs

4. Current policy is that all vehicles should cover, from their

motoring taxation (VED and fuel duty together), the track costs allocated to them, and all classes of HGVs do in fact produce an excess.

5. Artics tend to do a significantly higher annual mileage than rigids (see column II of the Table attached) which means that they pay a significantly higher amount of fuel duty (and artics tend to have poorer fuel consumption).

6. Because they tend to have lower track costs and pay higher amounts in fuel duty, artics have a significantly greater excess of taxation over track costs than do rigids (see column V of the Table attached). Transport proposals for increases in rigids' VED would, if accepted, be the first step towards placing rigids on a more equal footing with artics.

Conclusion

7. If the Transport track cost allocation figures are correct, (and there is no reason to suspect that they are not) there seems little prospect of merging the rigids/artics tax classes at the same time as ensuring an even-handed distribution of the excess.

X | 8. It may be possible to secure simplifications elsewhere, for example, by eliminating those classes which apply to relatively few vehicles, (Mr Channon has promised the Chancellor that his officials would look at this - their report is not expected in the time for this years' Budget), but I am not hopeful that this will be as fruitful an area as the hackneys: indeed I find the differences in track costs between HGV tax classes quite startling; and the UK system of taxing good vehicles by reference to the factors which most directly determine the infrastructure costs of HGVs: gross weight, axle numbers and patterns of use, forms the basis of the EC Commission's proposals for the harmonisation of goods vehicles' taxation.

R. George Michie

R G MICHIE

P

COMPARISON OF ANNUAL KM, ROAD TRACK COSTS, FUEL TAX AND EXCESS FOR
ARTICS AND RIGIDS OVER 12 TONNES

<u>I</u> VEHICLE	<u>II</u> ANNUAL KM PER VEHICLE	<u>III</u> ROAD TRACK COSTS	<u>IV</u> FUEL TAX PER 1000 VEHICLE KM	<u>V</u> EXCESS
3AxR 15-17	28000	£1133	£46.28	£503
2+1A 14-16	35000	£988	£48.62	£1288
3AxR 19-21	34000	£2008	£53.48	£519
2+1A 18-20	40000	£1552	£56.12	£1497
3AxR 23-25	42000	£3837	£63.54	£613
2+1A 23-25	50000	£3107	£65.49	£1343
4AxR 23-25	34000	£2210	£63.53	£640
2+2A 23-25	50000	£2500	£66.25	£1619
4AxR 27-29	47000	£4264	£69.12	£635
2+2A 27-29	61000	£3935	£69.93	£1534
4AxR 29-31	58000	£5911	£73.75	£1032
2+2A 29-31	65000	£5116	£73.56	£1352

Note : Figures based on average of all vehicles of each type.



FROM: J M G TAYLOR
DATE: 19 January 1989

67. 26/1

PS/ECONOMIC SECRETARY

cc Chief Secretary
Financial Secretary
Paymaster General
Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Culpin
Mrs Case
Mr Gilhooly
Mr Matthews
Mr Michie
Mrs Chaplin
Mr Tyrie
MrCall

Mr Unwin - C&E
Mr Jefferson-Smith - C&E

VED ON LORRIES

The Chancellor has seen Mr Culpin's note of 18 January, and Mr Michie's note of 17 January enclosed with it.

2. He has noted (Mr Michie's paragraph 8) that Mr Channon has promised that his officials will look at the possibility of eliminating those classes which apply to relatively few vehicles. He has commented that it would be highly desirable to have this report in time for this year's Budget. He would be grateful if DTp could be pressed to deliver.

A handwritten signature in dark ink, appearing to be 'J M G Taylor'.

J M G TAYLOR

CONFIDENTIAL

FROM: A G TYRIE
DATE: 19 January 1989

ECONOMIC SECRETARY

cc: Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Sir T Burns
Sir P Middleton
Mr Anson
Mr Scholar
Mrs Case
Mr Gilhooly
Mr Matthews
Mr Michie
Mr Culpin
Mrs Chaplin
Mr Call

VED ON LORRIES

As Robert Culpin says this is all very "rum".

2. I agree with his advice that we should pocket the few million which Paul Channon is offering up this year and, after the budget, go for a radical simplification in the 1990 budget.

3. As for what we should do next year, I can't see any point in keeping all the fine tuning which the logic of existing policy implies.

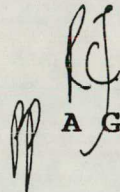
4. Even if we could implement the policy, smooth out the 'excess', and fine tune everything each year I am not sure it would be worth it. Can we be sure, for example, that the calculation of the road track costs are accurate enough to make it worthwhile? We are told that rigids bash the roads about more than artics. Do track costs include an element for accident rates? (I have heard that artics are more prone to cause accidents, by jackknifing than rigids) I doubt it.

5. So I suggest we abandon the distinction between the "rigids" and the "artics", abandon any attempt to fine tune VED exactly to track costs and create, say, three bands of VED:

- up to 20 tonnes;
- 21 tonnes to 25 tonnes inclusive;
- over 25 tonnes.

We can set the VED to ensure that all of them more than cover their track costs. Although I haven't done the number crunching I should have thought that VED rates for these bands could be formed which would produce no more discrepancies in the "excess" than the present system.

6. Of course, my preferred solution would be to scrap VED altogether, as it is for motor cars, but we have already been round that loop!


A G TYRIE

B U D G E T C O N F I D E N T I A L



[Handwritten signature]

[Handwritten signature]

FROM: S M A JAMES
DATE: 20 January 1989

MR CULPIN

cc: PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mrs Case
Mr Gilhooly
Mr Matthews
Mr Michie
Mrs Chaplin
Mr Tyrie
Mr Call

PS/C&E
Mr Jefferson-Smith - C&E

[Red checkmark]

VED ON LORRIES

The Economic Secretary was grateful for your minute, attaching Mr Michie's note, of 18 January.

2. He has commented that rigids do not pay more because they 'chew up the roads more'. They pay more because they are driven fewer miles. (A secondary factor is that they tend to be driven on non-motorways which cost more to maintain).
3. However the main question is if we go ahead this year, will it make a simplification next year more or less difficult? And is such simplification likely to include merging artics and rigids?

[Handwritten signature]

S M A JAMES
PRIVATE SECRETARY

B U D G E T C O N F I D E N T I A L

FROM: S M A JAMES
DATE: 23 January 1989

MR TYRIE

cc: PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Culpin
Mrs Case
Mr Gilhooly
Mr Matthews
Mr Michie
Mrs Chaplin
Mr Call

PS/C&E
Mr Jefferson-Smith - C&E

*Remember that we are
not realising the
the year. So no
handouts can take a
big cut in interest rate
but must be no case.
M.*

VED ON LORRIES

The Economic Secretary was grateful for your minute of 19 January.

2. He has commented that the conclusion seems to be ^{max} merging the two classes (rigid and artic) would involve raising rigid VEDs in most cases and so would raise money.

3. If that involves excessive increases for one year we have two options:

- (i) raise VED for those rigids which are below artics by as much as we think politic i.e. 10% (but not where rigids already pay more than artics);

(ii) raise VEDs a lot and reduce artics a little to achieve uniformity.

SMA

S M A JAMES
PRIVATE SECRETARY

FROM: ROBERT CULPIN
DATE: 26 January 1989

ECONOMIC SECRETARY

cc: Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Sir Peter Middleton
Sir Terence Burns
Mr Anson
Mr Scholar
Mrs Case
Mr Gilhooly
Mr Matthews
Mr Michie
Mrs Chaplin
Mr Tyrie
Mr Call

Mr Unwin
Mr Jefferson Smith) C&E

VED ON LORRIES

We need a decision. The question is: should we raise the VED on rigid heavy goods vehicles in this Budget?

2. Mr Channon wants us to. He presented a good enough case in his letter of 21 October. He has been helpful over coaches and the rest: we shall be able to abolish 60 VED rates in the Budget. We shall need his cooperation if we are ever to reduce the number of rates for heavy goods vehicles. So there is a presumption against turning him down.

3. The increase he wants would fall mainly on heavy lorries which clutter up towns and cities. They are not popular. Their owners can afford to pay. There would be no RPI effect of any significance. Ministers have more or less led people to expect some increase. And it would give us a bit of cover

BUDGET CONFIDENTIAL

for the increase on coaches, which may be a more popular cause.

4. We can pick holes in our own logic, but the increase would be consistent with the policy we have been operating. It should not close options for next year: even if we want to abolish the distinction between rigid and articulated vehicles, that, as you say, would probably involve raising the tax on rigids in most cases.

5. We don't need to define "most cases" now: Mr Channon says his officials will propose "a range of selective increases" when they know what we are doing to derv. We can look at the detail then.

6. So I think we should go ahead, and I think the Chancellor should tell Mr Channon.

7. If, at the same time, we can eliminate some VED classes which apply to few vehicles, we should certainly do that. We are nagging Transport officials.

8. It should be a priority for next year to try to reduce the number of VED rates for lorries, as you have done this year for coaches and agricultural machines. Precisely how we do it is a question we can leave open. If it proves sensible to abolish the distinction between rigid and articulated vehicles, despite the present Transport reservations, then fine; if the Department of Transport can persuade us of some other course, so be it. We don't need to settle that now; but the Chancellor does need to tell Mr Channon whether he is prepared to raise the tax on rigid goods vehicles in this Budget. I think he should. Are you content?



ROBERT CULPIN



FROM: J M G TAYLOR
DATE: 25 January 1989

A handwritten signature in dark ink, appearing to be 'JMG' or similar, written in a cursive style.

PS/ECONOMIC SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Culpin
Mrs Case
Mr Gilhooly
Mr Matthews
Mr Michie
Mrs Chaplin
Mr Tyrie
Mr Call

PS/C&E
Mr Jefferson Smith - C&E

VED ON LORRIES

The Chancellor has seen your note of 23 January to Mr Tyrie.

2. He has commented that we should remember that we are not revalorising diesel this year. So the hauliers can take a bigger VED increase than would otherwise be the case.

A handwritten signature in dark ink, appearing to be 'JMG' or similar, written in a cursive style.

J M G TAYLOR

est.ld/james/27 Jan/Culpin

B U D G E T CONFIDENTIAL

FROM: S M A JAMES
DATE: 27 JANUARY 1989

MR CULPIN

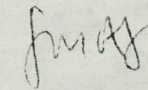
cc: PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mrs Case
Mr Gilhooly
Mr S Matthews
Mr Michie
Mrs Chaplin
Mr Tyrie
Mr Call

PS/C&E
Mr Jefferson-Smith - C&E

VED ON LORRIES

The Economic Secretary was grateful for your minute of 26 January.

2. Given that it does not close options, and may include some simplification (and raises money), he agrees we should give Mr Channon the green light.



S M A JAMES
Private Secretary



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

CH/EXCHEQUER	
REC.	06 FEB 1989
ACTION	EST
COPIES TO	

6/2
-6 FEB 1989

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Dear Nigel.

BUDGET 1989: VEHICLE EXCISE DUTY

In your letter to me of 30 September you asked if there was any scope for making the list of tax classes less daunting. In mine to you of 21 October I said that I had asked officials to look at the matter further and in particular to consider how to present the tables to the public in a simplified and more understandable format.

A revised table has been sent to Treasury officials. It is a substantial improvement on the document that has traditionally been issued with the Department of Transport Press Notice commenting on the Budget. I have no doubt that it will create a much better impression, but it is a presentational improvement only. There is still need for a master document setting out all the conceivable combinations of duration, concession, weight, etc. It is a working document used by post offices and Vehicle Registration Offices and has to be exhaustive.

In practice, the large number of possible tax rates does not make anyone's life more difficult. HGV operators have to know the technical classification of their vehicles, for plating and testing. The tax classification following that is made at first registration by the Vehicle Registration Office. Thereafter, re-licensing is usually done at the post office on the basis of a reminder from DVLC which specifies the appropriate tax class. Reducing the number of tax classes would not save operators any time, nor would it save any staff time or costs in this Department. But it could have some implications for vehicle manufacturers and aftermarket engineering concerns, who often fit their products to the vehicle weights determining tax classes.

Nevertheless I appreciate the presentational advantages of reducing the number of rates. I understand from contact at official level that you are concerned not only with simplifying the presentation of the tax tables, but with reducing the

number of tax classes. Our proposals this year for Hackneys and rigids, as well as the work we are now doing on amalgamating all the 'special machines' into a single class, are consistent with the theme of simplification. We will be able to say that over 60 hackney tax classes are being reduced to five, that six agricultural and works categories are being reduced to one, and that there will be nine fewer tax rates in the rigid HGV class.

91
I am afraid I do not see that we can do much more in this Budget. The first reason is time. Major changes in motoring tax structure require substantial re-programming of DVLC's computers, changing and reprinting forms, and the organisation of arrangements for refunds. There might just about be enough time before the budget to have the first shot at the programming, if all other vehicles work, including the scheme for sale of registration numbers, stopped. However, there would be no time to trial any of the new programmes, forms would have to be overprinted and there would be too great a risk of the exercise going seriously wrong. — The second consideration is space. I think at least three more pages would be needed in the Finance Bill, depending on what form of simplification was chosen.

Apart from the practical and legislative implications, it is not easy to see what rationale should be chosen for wholesale simplification. I set out the arguments in my 21 October letter. Briefly, the HGV tax tables are complex because tax rates are affected by length of licence, weight of vehicle, number of axles, configuration (rigid or articulated) and use (the concessions for use by farmers and showmen). Withdrawing the 6-month licensing facility for HGVs would be strongly objected to: the cash-flow implications for hauliers are major. Weight and number of axles are what principally determines the wear and tear a lorry causes to the road. We could not maintain a policy of track cost coverage without them. That would have substantial implications in Europe as well as at home. Configuration does not affect wear and tear directly, but it is an easy way to distinguish between very different patterns of use which have different income and expenditure effects. Abolishing the farmers' concessions, which are based on surveys of actual use, would cause a storm of protest. Showmen's concessions apply only to a very few vehicles.

It is, however, theoretically possible to amalgamate the rates (rather than tax classes) produced by the current calculations by rounding, where the gaps between them are not too great. That is what we have done when recalculating the rigid rates this year, reducing the number of different rates charged. Because we have to demonstrate that each category covers its costs and that the resultant tax excesses follow a rational pattern, as well as trying to avoid tax rate reductions and consequent refunds, there are complex iterative sums to be done. During the coming months, we will have new traffic census and weight data for HGVs which will mean more recalculations of the track costs of articulated and rigid HGVs. I propose to ensure that when the track cost implications of that data are turned into proposed new tax rates for next

CONFIDENTIAL

year, the objective should be that the number of different rates is kept to a minimum consistent with the other constraints. For this year's Budget, however, I think we must stick to the proposals I have already made - which can, as I have said above, be presented very positively.

ans,

Paul

PAUL CHANNON

CONFIDENTIAL



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

CH/EXCHEQUER	
REC.	06 FEB 1989
NOTED	EST
COPIES TO	

6/2

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

ECONOMIC SECRETARY	
REC'D	07 FEB 1989
ACTION	MR L MICHIE
COPIES TO	POST OFFICE SIR P. MIDDLETON MR T. BURNS MR ANSON MR SHUBBART MR GILLAN MRS CASE MR GILROY MR MATTHEWS MRS CHAPLIN MR THORP MR CAUL MR JEFFERSON - SMITH PS/CRE

See Nigel.

BUDGET 1989: VEHICLE EXCISE DUTY

In your letter to me of 30 September you asked if there was any scope for making the list of tax classes less daunting. In mine to you of 21 October I said that I had asked officials to look at the matter further and in particular to consider how to present the tables to the public in a simplified and more understandable format.

A revised table has been sent to Treasury officials. It is a substantial improvement on the document that has traditionally been issued with the Department of Transport Press Notice commenting on the Budget. I have no doubt that it will create a much better impression, but it is a presentational improvement only. There is still need for a master document setting out all the conceivable combinations of duration, concession, weight, etc. It is a working document used by post offices and Vehicle Registration Offices and has to be exhaustive.

In practice, the large number of possible tax rates does not make anyone's life more difficult. HGV operators have to know the technical classification of their vehicles, for plating and testing. The tax classification following that is made at first registration by the Vehicle Registration Office. Thereafter, re-licensing is usually done at the post office on the basis of a reminder from DVLC which specifies the appropriate tax class. Reducing the number of tax classes would not save operators any time, nor would it save any staff time or costs in this Department. But it could have some implications for vehicle manufacturers and aftermarket engineering concerns, who often fit their products to the vehicle weights determining tax classes.

Nevertheless I appreciate the presentational advantages of reducing the number of rates. I understand from contact at official level that you are concerned not only with simplifying the presentation of the tax tables, but with reducing the

number of tax classes. Our proposals this year for Hackneys and rigids, as well as the work we are now doing on amalgamating all the 'special machines' into a single class, are consistent with the theme of simplification. We will be able to say that over 60 hackney tax classes are being reduced to five, that six agricultural and works categories are being reduced to one, and that there will be nine fewer tax rates in the rigid HGV class.

I am afraid I do not see that we can do much more in this Budget. The first reason is time. Major changes in motoring tax structure require substantial re-programming of DVLC's computers, changing and reprinting forms, and the organisation of arrangements for refunds. There might just about be enough time before the budget to have the first shot at the programming, if all other vehicles work, including the scheme for sale of registration numbers, stopped. However, there would be no time to trial any of the new programmes, forms would have to be overprinted and there would be too great a risk of the exercise going seriously wrong. The second consideration is space. I think at least three more pages would be needed in the Finance Bill, depending on what form of simplification was chosen.

Apart from the practical and legislative implications, it is not easy to see what rationale should be chosen for wholesale simplification. I set out the arguments in my 21 October letter. Briefly, the HGV tax tables are complex because tax rates are affected by length of licence, weight of vehicle, number of axles, configuration (rigid or articulated) and use (the concessions for use by farmers and showmen). Withdrawing the 6-month licensing facility for HGVs would be strongly objected to: the cash-flow implications for hauliers are major. Weight and number of axles are what principally determines the wear and tear a lorry causes to the road. We could not maintain a policy of track cost coverage without them. That would have substantial implications in Europe as well as at home. Configuration does not affect wear and tear directly, but it is an easy way to distinguish between very different patterns of use which have different income and expenditure effects. Abolishing the farmers' concessions, which are based on surveys of actual use, would cause a storm of protest. Showmen's concessions apply only to a very few vehicles.

It is, however, theoretically possible to amalgamate the rates (rather than tax classes) produced by the current calculations by rounding, where the gaps between them are not too great. That is what we have done when recalculating the rigid rates this year, reducing the number of different rates charged. Because we have to demonstrate that each category covers its costs and that the resultant tax excesses follow a rational pattern, as well as trying to avoid tax rate reductions and consequent refunds, there are complex iterative sums to be done. During the coming months, we will have new traffic census and weight data for HGVs which will mean more recalculations of the track costs of articulated and rigid HGVs. I propose to ensure that when the track cost implications of that data are turned into proposed new tax rates for next

year, the objective should be that the number of different rates is kept to a minimum consistent with the other constraints. For this year's Budget, however, I think we must stick to the proposals I have already made - which can, as I have said above, be presented very positively.

ch

Paul

PAUL CHANNON

Treasury Chambers, Parliament Street, SW1P 3AG

February 1989

Peter Bottomley Esq MP
Minister for Roads and Traffic
Department of Transport
2 Marsham Street
LONDON SW1P 3EB

1989 FINANCE BILL MINOR STARTERS

Thank you for your further letter on Finance Bill minor starters.

I am most grateful to you for agreeing to drop starters 600 (Northern Ireland/GB Mutual Licencing Exemption), 610 (Mine Rescue), and 630 (Failure to Notify Vehicle Keeper Changes).

I am grateful too for the clarification of your proposals on starter 606 (Dishonoured Cheques) and for your assurance that the penalty equivalent to the duty would be applied only following a successful conviction in the Courts. On that basis I am content that this starter should join those (starters 601, 605, ~~631~~ 632 and 633) for which I will endeavour to find Finance Bill space.

PETER LILLEY



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

February 1989

The Rt Hon Paul Channon MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON

A handwritten signature in cursive script, appearing to read 'Paul Channon'.

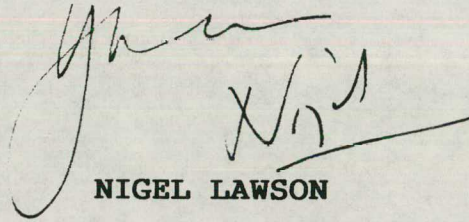
Thank you for your recent letter outlining the results of the further work your officials have done on improving the presentation of the Vehicle Excise Duty tables. I am most grateful for their efforts.

Your proposal to reduce the number of tax rates in the rigid HGV class is welcome, coming as it does on top of the planned simplifications in the hackney and agricultural classes. I accept that given time constraints we cannot do much more in this Budget, and as you say, the proposals you have already made can be presented very positively. I am encouraged too by your plans to do further work on this in the coming months as I am hopeful that we can achieve further significant simplifications in the VED structure next year.

Turning now to your other suggestions for my Budget, I am content with your proposals to leave the main rates of VED unchanged, and that the rate for 'special types' be brought into line with the heaviest HGVs. I can confirm also that there should be substantial increases in the level of VED for hackneys so as to bring all classes within the group up to track cost coverage.

On rigid HGVs, I accept that we should take further steps to bring their excess further into line with that of artics. I note your proposal to link the increases in VED to the increases in motoring taxation generally, and I accept that there is logic in this. But pending the further work which your officials are doing on the simplification of the VED structure, I would prefer not to commit myself on this point just yet. For this year, I am content that we aim for the more modest of the two options outlined in your letter of 21 October; namely that which will yield around £18 million a year. Perhaps your officials could clear quickly with mine, the actual VED rates which will apply to the individual classes of rigid and hackneys.

Peter Lilley is writing to Peter Bottomley on the minor starters.



NIGEL LAWSON

FROM: R G MICHIE
DATE: 9 February 1989

- 1 agree*
9/2
1. MR GILHOOLY
 2. ECONOMIC SECRETARY

cc Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Matthews
Mr Macpherson
Mr Flanagan
Ms Chaplin
Mr Call
Mr Tyrie

PS/C&E

Mr Jefferson Smith C&E

Mr Jenkins - Parly Counsel

BUDGET 1989: VEHICLE EXCISE DUTY

Mr Channon has now written to the Chancellor (copy attached) outlining the results of his officials' deliberations on the structure of the heavy goods vehicles tax classes. The outcome is promising and despite the further defence of the existing regime by Mr Channon, his officials have acknowledged privately that there are further simplifications still to come.

2. The Chancellor will need to notify Mr Channon soon of his final decisions of the main VED rates, and you will need to tie up one or two loose ends on the minor starters with Mr Bottomley. This submission covers all the outstanding VED issues. It seeks your agreement to the line we propose to recommend to the Chancellor on the main VED rates and to further work to be done to simplify the tax classes; and it makes recommendations and provides a draft reply for you to send to Mr Bottomley on the minor starters.

Mr Channon's proposals on the main VED rates

3. The background to these proposals are outlined in detail in Mr Flanagan's submission of 21 December to the Chancellor (proposals (i) (ii) and (iii)), and my submission of 26 September also to the Chancellor (proposal (iv)). Briefly the proposals are:

- (i) that most VED rates (including that for cars) should remain unchanged: we have no objections to this. VED would still yield £2.8 billion in 1989-90: about a quarter of total motoring taxation;
- (ii) that VED for "special types" (about 400 vehicles used for transporting extra heavy or indivisible loads) should be increased from £1,600 to £3,100: up until 1988 these vehicles paid £130 a year, but did as much damage to roads as the heaviest HGVs which pay £3,100. Last year the Chancellor set a new special types duty at £1,600, and it was made clear that this was only the first step. We have no objections to the proposed increase.
- (iii) That VED for rigid goods vehicles (HGVs) should be increased to bring their total motoring taxation more closely into line with that paid by articulated HGVs: you have already agreed to this (Miss James note of 27 January to Mr Culpin). The question to be decided is whether we go for increases which will yield around £50m a year - under Mr Channon's proposal this option is linked to there being some increases in fuel duty in the Budget; or whether we opt for more modest increases which would yield around £18m a year - this would be his preferred option if the fuel duties were to be left unchanged.

Whilst we can see the logic in Mr Channon's proposal to link fuel duty and VED increases, we suggest that

we do not commit ourselves to agreeing this, pending further work to be undertaken on the simplification of the HGV tax class structure. In the meantime, we recommend the more modest of the proposals yielding around £18m a year (this is the figure shown in the Scorecard) but in doing so, making it clear that this increase is not linked to what happens to the other motoring taxes. If we were to suggest higher increases, or were to plump for the £50m option, it is likely that Transport officials would press for some agreement on the 'linking' outlined above.

- (iv) that the rates in the hackney classes be raised substantially so that taxis pay the same VED as a private car, and buses and coaches as a group cover their track costs: the Chancellor has already given his approval in principle to these increases and we recommend that this be confirmed.

Simplification of the tax classes

4. In his letter to the Chancellor, Mr Channon offers nine fewer tax rates in the rigid HGV classes (in discussions with Transport officials this started off at fourteen, was then reduced to nine for the letter, and is said currently to be ten or eleven). This is a much more modest result than you achieved with hackneys, but is not unexpected given the entrenched attachment which Transport officials have for their existing HGV track cost policy. And Mr Channon promises a more user-friendly form of presentation of the main VED rates. I attach a copy of a rough draft of the new form as supplied by Transport officials. It is a considerable improvement over the full V149 and shows main rates and revised rates only.

5. Mr Channon says that for a number of reasons there is little more he can offer for this Budget but he proposes to ensure that

when the new track cost figures are determined, the objective should be that "the number of different rates is kept to a minimum consistent with the other constraints".

6. We recommend that Mr Channon is not pressed to come up with further simplification this year: we do not believe he has the time to deliver, and as he indicates, we have a fairly impressive story to tell anyway: hackneys - tax classes reduced from over 60 to 5; grass cutting and other special machines down from six classes to one; and HGVs rates reduced by around 10 (despite the distinction which Mr Channon draws between tax classes and tax rates, I have confirmed with officials that what is proposed for HGVs, in practice comes to much the same thing as is proposed for hackneys). But we believe that we can achieve further significant changes to the HGV classes next year and have reflected this in the draft letter to Mr Channon attached. (Transport officials have already set up a fresh working party to look at VED structures, and we have told them that we would like a report in the summer months to allow plenty of time for discussion in the run up to the next Budget).

Minor Starters

7. You have already agreed to try and find Finance Bill space for starters 601 (Trade Licencing), 605 (Recovery Vehicles), 631 (Update References to Registration Books) and 633 (Sale of Vehicle Registration Marks). And Mr Bottomley has agreed to drop starters 600 (Northern Ireland/GB Mutual Licencing Exemption), 610 (Mine Rescue Vehicles) and 630 (Failure to Notify Vehicle Keeper Changes). He has agreed also to your alternative proposals for starter 632 (Grass Cutting) which will bring a more fundamental simplification in this area with over 470,000 vehicles being included in the same tax class.

8. The one outstanding issue concerns starter 606 (Dishonoured Cheques). You will recall that when a cheque in payment for a VED licence is dishonoured, the licence is deemed to be void from the moment issue, and the Department of Transport has authority to request the return of the void licence within a period of 7 days.

If the motorist does not comply he can be prosecuted for failure to return the licence, but the Department can recover back-duty only in those instances where they can prove actual use of the licence. The proposal seeks authority for the application of a penalty, equivalent to the duty for the period the licence was held, without the need to prove actual use.

9. When discussing this proposal with Transport officials, they explained that around 87,000 cheques issued in respect of VED licences are dishonoured each year. The majority of these cases are resolved fairly quickly either through early return of the licence, or through full payment being made. But around 20,000 cases drag on and the licence is either not returned, or returned after some months. Of these, around 6,000 result in prosecutions and the remaining 14,000 are not pursued. Transport officials said that the proposal would allow for the application of an automatic penalty by the Courts following conviction, or by the Department itself in those cases not taken to the Courts. It was this second leg which caused us particular concern.

10. However, Mr Bottomley says that the proposal seeks to apply the penalty only following a successful conviction in the Courts. This would be an automatic penalty but should not prove too controversial: the Courts may not be too happy at their lack of discretion in the matter, but they could of course balance the automatic penalty against any fine they impose. And as Mr Bottomley points out, there are already automatic penalties for similar VED offences. Given that it is now clear that the penalty would be applied only following successful conviction and that Mr Bottomley attaches considerable importance to the proposal as a defence against deliberate evasion, we recommend that you agree to the inclusion of this starter.

Summary of all surviving Transport Starters

- 11. 601 (Trade Licencing - third and final increase);
- 602 (Special Types);
- 603 (Rigid VED);

- 604 (Hackneys);
- 605 (Recovery Vehicles);
- 606 (Dishonoured Cheques);
- 631 (Registration document);
- 632 (Grass Cutting Machines);
- 633 (Registration Marks).

Finance Bill Space

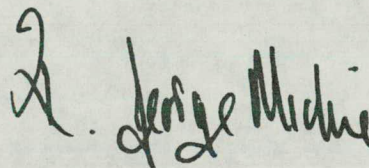
12. With the exception of starter 606 (dishonoured cheques) which would take just over one Finance Bill page, the demands made by the Transport starters will be relatively modest.

Revenue

13. Total yield from the Transport starters is expected to be around £40m (about £20m each from starters 603, and 604). In addition, the sale of registration marks (633) could yield around £30m in a full year. The RPI effects of the starters should be negligible.

Replies to Transport Ministers

14. A draft reply is attached for you to send to Mr Bottomley. We attach also a draft reply on the main VED rates which we propose to submit to the Chancellor, provided you are in agreement with the recommendations outlined above.



R G MICHIE



Board Room
H M Customs and Excise
15th Floor Alexander House
21 Victoria Avenue
Southend-on-Sea
SS99 1AA
0702348944

CONFIDENTIAL

FROM: C C FINLINSON
DATE: 9 FEBRUARY 1989

Pmp

ECONOMIC SECRETARY

RECOVERY OF OVERPAID TAX AND DUTY FROM CUSTOMS AND EXCISE

1. In our submission of 1 September 1988 we set out proposals to provide the taxpayer with a statutory right to recover overpaid VAT and excise duty, save where such recovery led to his unjust enrichment. You agreed that this should go forward as a Finance Bill starter and Parliamentary Counsel has been instructed accordingly.

2. This note considers the implications of the House of Lords decision in Fine Arts and in addition recommends that the Starter should be retained.

Fine Art Developments plc

3. One of the reasons - if not the main one - for putting forward these proposals was to meet the criticism of the Court of Appeal. In dealing with the above company's claim for the repayment of some £1.4m tax overpaid in error, the Court found that for want of a proper statutory mechanism, the claim could not be sustained but considered it desirable that there should be such a mechanism.

Circulation

Chancellor
Financial Secretary
Mr Culpin
Mr Gilhooly
Mr Michie
Mr Call
Mr Jenkins (OPC)
PS/Inland Revenue
Mr Elliott (IR)

CPS
Mr Jefferson Smith
Mr Wilmott
Mr Nissen
Dr McFarlane
Mr Fryett
Mr Holloway
Mr Gaw
Mr Kent

Mr Cockerell
Mr Deedman

4. The Company appealed to the House of Lords. In a trenchant judgment delivered on 2 February, the Lords overturned the Court of Appeal ruling and found that a statutory mechanism for the correction of errors does exist and was properly applied by the company when they sought to recover tax overpaid in error by deducting the amount from tax they were due to pay. The Lords also took the view that if the Commissioners did not accept that a deduction had been properly made, they could attempt to retrieve the position by raising an assessment.

5. We were unwilling to accept the company's claim on the grounds that the overpayment had been made under a mistake of law; an important element of such a defence is that repayment would merely result in the company's own unjust enrichment and not be applied to the benefit of those who actually bore the tax. We have considered whether an assessment would be an appropriate step to take in this case, bearing in mind that it would almost certainly be appealed to the VAT Tribunal. The law as it stands does not recognise unjust enrichment, however, and we are advised that there is no means by which that doctrine could be considered by a Tribunal. Similarly we would be unable to ask the Tribunal to uphold the assessment on grounds of mistake of law which is best regarded as a defence to an action rather than a cause. We therefore see little point in raising an assessment. As far as Fine Art Developments is concerned, there is no other response available and the company will thus be allowed to retain the £1.4m in dispute.

Matters Arising

6. Having accepted that there is nothing further we can do in this particular case, we have still to determine the appropriate course our Finance Bill starter should take. The existing regulations - to which the Lords have given their seal of approval - remain defective from our point of view in two important respects. Firstly, we cannot reject an adjustment made by the taxpayer in his favour through his VAT account where it results in a windfall profit and his unjust enrichment. Secondly, there is no time limit on such adjustments, so that a trader is not barred from going back to 1973 in the case of VAT (or even further where excise duty is concerned) whereas we can normally only go back six years in raising an assessment for VAT.

7. We also have to legislate for the situation post-Keith III when a revised VAT return form is to be introduced, along with a new system for making voluntary disclosures of overpaid and underpaid tax.

8. There is a number of cases similar to Fine Art Developments waiting in the wings, mostly concerning direct selling traders. The Lords' judgment will undoubtedly bring these on stage - and there may be others of which we are unaware. It effectively denies us the mistake of law defence and opens the way for as many of those traders as are still registered to make a deduction on any future tax return of the sum previously denied. Others who may now be deregistered may make a claim for repayment of tax overpaid and it would be difficult to justify continuing to resist such claims merely because deregistration had removed the option of making a deduction on a tax return. Such claims, unlike deductions on the return, would probably seek interest on the tax claimed. Precise figures are not available but our estimate of the amount of tax overpaid by direct selling traders in the past and vulnerable to deduction on returns or to claims is £11 million. There is little we can do about this until such time as the legal defects can be remedied. We have considered seeking your agreement to a measure of retrospection in order to close this window at the earliest opportunity (ie prior to Royal Assent) but any such action would not only be criticised as an attempt to frustrate taxpayers' rights but mean that we could not keep our promise to expose draft regulations as part of a consultation exercise.

The Way Forward

9. Although the Lords' judgment has confirmed the taxpayer's right to recover overpaid tax via his current tax return, the uncertainty behind regulations, as demonstrated in the Court of Appeal, still remains. Our lawyers consider that it might be possible to mount a salvage operation by way of immediate regulations to deal with unjust enrichment and time limits but the matter is a complex one and the vires for such regulations is by no means certain. It is not a course we feel we can recommend, notwithstanding the potential revenue loss of the £11m.

10. If it is accepted that fresh primary legislation will be necessary before further regulations can be laid, the question is essentially one of timing. In many ways it would be convenient to introduce new regulations on 1 January 1990 concurrently with the implementation of Keith III in order to avoid having, as it were, one set of regulations before 1 January 1990 and a different set afterwards. A consequence of this however would be to leave open until that date the two loopholes of unjust enrichment and time limits with the risk of further revenue loss. The practical way forward, as we see it, is to legislate in the Finance Bill, in the way we proposed in our submission of 1 September.

E. R.

We would hope to expose draft regulations as a follow up to the Budget statement with a view to introducing them shortly after Royal Assent. However, the Clause will no longer be concessionary, but will be restrictive, by barring unjust enrichment and restricting claims to six years. These points may indeed be criticised but we are confident that most individual taxpayers would regard them as fair and reasonable.

11. Because of the Lords' judgment, there will inevitably be enquiries of the Commissioners to ascertain their reaction. We suggest that it would be appropriate to issue a Press statement to underline our acceptance of the position as far as Fine Art Developments is concerned and to confirm our willingness to consider applications for repayment from traders to whom the normal means of correction via the VAT return is not available. In addition we would announce that we shall put in hand a consultation exercise to consider what regulation changes are needed in the Keith III era, information which has already been given to some trade associations and traders.

12. If you are content with this course of action, we will submit a draft Press statement for your approval.

13. Finally, we should make it clear that although the foregoing deals almost exclusively with VAT, our proposals for primary legislation still embrace excise duty as well. Thus, unjust enrichment and time limits would apply similarly to claims for the repayment of duty overpaid in error. At this stage, no additional regulations appear necessary however.

Cef.

C C FINLINSON

FROM: R G MICHIE
 DATE: 9 February 1989

1. MR GILHOOLY *1 agree*
 2. ECONOMIC SECRETARY *9/2*

cc Chancellor
 Chief Secretary
 Financial Secretary
 Paymaster General
 Sir P Middleton
 Mr Scholar
 Mr Culpin
 Mr Matthews
 Mr Macpherson
 Mr Flanagan
 Ms Chaplin
 Mr Call
 Mr Tyrie

PS/C&E
 Mr Jefferson Smith C&E

Mr Jenkins - Parly Counsel

BUDGET 1989: VEHICLE EXCISE DUTY

Mr Channon has now written to the Chancellor (copy attached) outlining the results of his officials' deliberations on the structure of the heavy goods vehicles tax classes. The outcome is promising and despite the further defence of the existing regime by Mr Channon, his officials have acknowledged privately that there are further simplifications still to come.

2. The Chancellor will need to notify Mr Channon soon of his final decisions of the main VED rates, and you will need to tie up one or two loose ends on the minor starters with Mr Bottomley. This submission covers all the outstanding VED issues. It seeks your agreement to the line we propose to recommend to the Chancellor on the main VED rates and to further work to be done to simplify the tax classes; and it makes recommendations and provides a draft reply for you to send to Mr Bottomley on the minor starters.

Mr Channon's proposals on the main VED rates

3. The background to these proposals are outlined in detail in Mr Flanagan's submission of 21 December to the Chancellor (proposals (i) (ii) and (iii)), and my submission of 26 September also to the Chancellor (proposal (iv)). Briefly the proposals are:

- (i) that most VED rates (including that for cars) should remain unchanged: we have no objections to this. VED would still yield £2.8 billion in 1989-90: about a quarter of total motoring taxation;
- (ii) that VED for "special types" (about 400 vehicles used for transporting extra heavy or indivisible loads) should be increased from £1,600 to £3,100: up until 1988 these vehicles paid £130 a year, but did as much damage to roads as the heaviest HGVs which pay £3,100. Last year the Chancellor set a new special types duty at £1,600, and it was made clear that this was only the first step. We have no objections to the proposed increase.
- (iii) That VED for rigid goods vehicles (HGVs) should be increased to bring their total motoring taxation more closely into line with that paid by articulated HGVs: you have already agreed to this (Miss James note of 27 January to Mr Culpin). The question to be decided is whether we go for increases which will yield around £50m a year - under Mr Channon's proposal this option is linked to there being some increases in fuel duty in the Budget; or whether we opt for more modest increases which would yield around £18m a year - this would be his preferred option if the fuel duties were to be left unchanged.

Whilst we can see the logic in Mr Channon's proposal to link fuel duty and VED increases, we suggest that

we do not commit ourselves to agreeing this, pending further work to be undertaken on the simplification of the HGV tax class structure. In the meantime, we recommend the more modest of the proposals yielding around £18m a year (this is the figure shown in the Scorecard) but in doing so, making it clear that this increase is not linked to what happens to the other motoring taxes. If we were to suggest higher increases, or were to plump for the £50m option, it is likely that Transport officials would press for some agreement on the 'linking' outlined above.

- (iv) that the rates in the hackney classes be raised substantially so that taxis pay the same VED as a private car, and buses and coaches as a group cover their track costs: the Chancellor has already given his approval in principle to these increases and we recommend that this be confirmed.

Simplification of the tax classes

4. In his letter to the Chancellor, Mr Channon offers nine fewer tax rates in the rigid HGV classes (in discussions with Transport officials this started off at fourteen, was then reduced to nine for the letter, and is said currently to be ten or eleven). This is a much more modest result than you achieved with hackneys, but is not unexpected given the entrenched attachment which Transport officials have for their existing HGV track cost policy. And Mr Channon promises a more user-friendly form of presentation of the main VED rates. I attach a copy of a rough draft of the new form as supplied by Transport officials. It is a considerable improvement over the full V149 and shows main rates and revised rates only.

5. Mr Channon says that for a number of reasons there is little more he can offer for this Budget but he proposes to ensure that

when the new track cost figures are determined, the objective should be that "the number of different rates is kept to a minimum consistent with the other constraints".

6. We recommend that Mr Channon is not pressed to come up with further simplification this year: we do not believe he has the time to deliver, and as he indicates, we have a fairly impressive story to tell anyway: hackneys - tax classes reduced from over 60 to 5; grass cutting and other special machines down from six classes to one; and HGVs rates reduced by around 10 (despite the distinction which Mr Channon draws between tax classes and tax rates, I have confirmed with officials that what is proposed for HGVs, in practice comes to much the same thing as is proposed for hackneys). But we believe that we can achieve further significant changes to the HGV classes next year and have reflected this in the draft letter to Mr Channon attached. (Transport officials have already set up a fresh working party to look at VED structures, and we have told them that we would like a report in the summer months to allow plenty of time for discussion in the run up to the next Budget).

Minor Starters

7. You have already agreed to try and find Finance Bill space for starters 601 (Trade Licencing), 605 (Recovery Vehicles), 631 (Update References to Registration Books) and 633 (Sale of Vehicle Registration Marks). And Mr Bottomley has agreed to drop starters 600 (Northern Ireland/GB Mutual Licencing Exemption), 610 (Mine Rescue Vehicles) and 630 (Failure to Notify Vehicle Keeper Changes). He has agreed also to your alternative proposals for starter 632 (Grass Cutting) which will bring a more fundamental simplification in this area with over 470,000 vehicles being included in the same tax class.

8. The one outstanding issue concerns starter 606 (Dishonoured Cheques). You will recall that when a cheque in payment for a VED licence is dishonoured, the licence is deemed to be void from the moment issue, and the Department of Transport has authority to request the return of the void licence within a period of 7 days.

If the motorist does not comply he can be prosecuted for failure to return the licence, but the Department can recover back-duty only in those instances where they can prove actual use of the licence. The proposal seeks authority for the application of a penalty, equivalent to the duty for the period the licence was held, without the need to prove actual use.

9. When discussing this proposal with Transport officials, they explained that around 87,000 cheques issued in respect of VED licences are dishonoured each year. The majority of these cases are resolved fairly quickly either through early return of the licence, or through full payment being made. But around 20,000 cases drag on and the licence is either not returned, or returned after some months. Of these, around 6,000 result in prosecutions and the remaining 14,000 are not pursued. Transport officials said that the proposal would allow for the application of an automatic penalty by the Courts following conviction, or by the Department itself in those cases not taken to the Courts. It was this second leg which caused us particular concern.

10. However, Mr Bottomley says that the proposal seeks to apply the penalty only following a successful conviction in the Courts. This would be an automatic penalty but should not prove too controversial: the Courts may not be too happy at their lack of discretion in the matter, but they could of course balance the automatic penalty against any fine they impose. And as Mr Bottomley points out, there are already automatic penalties for similar VED offences. Given that it is now clear that the penalty would be applied only following successful conviction and that Mr Bottomley attaches considerable importance to the proposal as a defence against deliberate evasion, we recommend that you agree to the inclusion of this starter.

Summary of all surviving Transport Starters

11. 601 (Trade Licencing - third and final increase);
- 602 (Special Types);
- 603 (Rigid VED);

- 604 (Hackneys);
- 605 (Recovery Vehicles);
- 606 (Dishonoured Cheques);
- 631 (Registration document);
- 632 (Grass Cutting Machines);
- 633 (Registration Marks).

Finance Bill Space

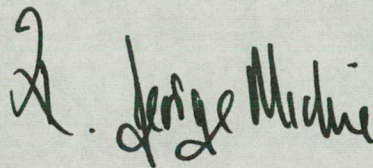
12. With the exception of starter 606 (dishonoured cheques) which would take just over one Finance Bill page, the demands made by the Transport starters will be relatively modest.

Revenue

13. Total yield from the Transport starters is expected to be around £40m (about £20m each from starters 603, and 604). In addition, the sale of registration marks (633) could yield around £30m in a full year. The RPI effects of the starters should be negligible.

Replies to Transport Ministers

14. A draft reply is attached for you to send to Mr Bottomley. We attach also a draft reply on the main VED rates which we propose to submit to the Chancellor, provided you are in agreement with the recommendations outlined above.



R G MICHIE



MINISTER
FOR ROADS AND TRAFFIC

Peter Lilley Esq MP
Economic Secretary to the
Treasury
Parliament Street
LONDON SW1P 3AG

My ref
Your ref

ECONOMIC SECRETARY
15/11/89
MR MICHIE
PS/CHK/PS/IST/PS/STG/
SIR P MIDGLEDEN
MR SCHOLAR
MR GILMOUR
MR REVOLTA
MR RILEY
MR MACPHERSON
MR FLANNAGAN
MS POLLOCK

Dear Peter

1989: FINANCE BILL MINOR STARTERS

72 FEB 1990
MRS CHAPLIN
MR TYRRE
MR JENKINS OPC.
MR REVOLTA MC
MR RILEY CALL
MR MACPHERSON
MR FLANNAGAN
MS POLLOCK

Thank you for your letters of 8 and 9 November. I am glad you think you will be able to include starters 601 (Trade Licensing), 605 (Recovery Vehicles) and 631 (Update references to registration book). I was particularly pleased that you agreed to find space for the 633 "Sale of Vehicle Registration Marks" - in the Bill.

I have, as you asked, considered again starters 600, 630, 606, 632 and 610. I have concluded that starter 600 (Northern Ireland/GB mutual licensing exemption) can be set aside pending the possible amalgamation of the two Acts and that starter 610 (mine rescue) need not go forward this year.

630 Failure to notify vehicle keeper changes

The Department is under increasing pressure from the police and Courts to improve the accuracy of the DVLC vehicle records. This starter reflected our determination to tighten up the system. The alternative you suggest would itself probably need new legislation.

Rather than press the issue this year, I have asked officials to review the relative merits of these and any other possible measures to tackle the problem. If - as I expect - new legislation of some sort is still needed to maximise the effectiveness of the vehicle register, I would expect to return to this topic with more vigour next year.

606 Dishonoured Cheques

I think the risk of controversy on this one is small and worth taking. The issue has been re-examined in depth since last year. Lawyers now advise the item will be just over a page in length. I would share your concern if matters were as your letter describes, but I can reassure you the proposed penalty could only be imposed by a court following a conviction for the offence of failing to surrender a vehicle excise licence obtained with a dud cheque. We are proposing a stronger penalty for that offence in order to discourage this form of VED evasion further. The amount prescribed is the value of the licence while it was in the offenders possession; whether or how much the vehicle in question was then kept or used on the road is not relevant. The other issues you raise are not unique to this starter. The additional penalties

CONFIDENTIAL

courts are bound to impose on vehicle owners who are convicted and fined for VED evasion under the Vehicles (Excise) Act 1971 are now applied according to the same criteria.

I am sorry if we have been the cause of any misapprehensions about this item. I hope you will agree that the safeguards to which you refer are not appropriate in the light of the explanations I have now given, and that the starter can go forward unamended.

632 Grass Cutting

I am attracted to your proposal for a more fundamental simplification in this area and I agree it would complement our plans for the Hackney class and solve the enforcement and administration problems experienced here and in Customs and Excise. It would mean a sweeping simplification of the rules on use, it would meet my original intention of including local authority and other grass and hedge cutters and would streamline the rebated fuel duty provisions. Some restrictions would, as you say, remain, but none of those are at present causing any problems.

Officials have consulted lawyers, who are satisfied it can be done this year, and without making substantial demands on scarce Bill space. What you suggest would cost a little in fuel duty and VED revenue from the 2,000 vehicles currently outside the £16 tax classes, but we can monitor track costs and ensure the enlarged class covers its costs in VED alone. For this year, to ease the transition to the new unified class for the 470,000 vehicles and to avoid them all re-licensing at once I would leave the VED at £16.

We can then change them into the new class as their present licences expire. The relaxation of the present constraints may awaken hauliers' fears of unfair competition, but I think they can be easily allayed.

1/0 - *am*
Pete

PETER BOTTOMLEY



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

CH/EXCHEQUER	
REC.	06 FEB 1989
EST	EST
COPIES TO	

6/2

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

ECONOMIC SECRETARY	
REC'D	07 FEB 1989
ACTION	MR L. MICHIE
COPIES TO	PS/CST PS/EST PS/PMG SIR P. MIDDLETON SIR T. BURNS MR ANSON MR SUNDAR MR GILLON MRS CASE MR GILFORD MR MATTHEWS MRS CHAPLIN MR TULIE MR CALL MR JEFFERSON-SMITH PS/CPE

Jan Nigel.

BUDGET 1989: VEHICLE EXCISE DUTY

In your letter to me of 30 September you asked if there was any scope for making the list of tax classes less daunting. In mine to you of 21 October I said that I had asked officials to look at the matter further and in particular to consider how to present the tables to the public in a simplified and more understandable format.

A revised table has been sent to Treasury officials. It is a substantial improvement on the document that has traditionally been issued with the Department of Transport Press Notice commenting on the Budget. I have no doubt that it will create a much better impression, but it is a presentational improvement only. There is still need for a master document setting out all the conceivable combinations of duration, concession, weight, etc. It is a working document used by post offices and Vehicle Registration Offices and has to be exhaustive.

In practice, the large number of possible tax rates does not make anyone's life more difficult. HGV operators have to know the technical classification of their vehicles, for plating and testing. The tax classification following that is made at first registration by the Vehicle Registration Office. Thereafter, re-licensing is usually done at the post office on the basis of a reminder from DVLC which specifies the appropriate tax class. Reducing the number of tax classes would not save operators any time, nor would it save any staff time or costs in this Department. But it could have some implications for vehicle manufacturers and aftermarket engineering concerns, who often fit their products to the vehicle weights determining tax classes.

Nevertheless I appreciate the presentational advantages of reducing the number of rates. I understand from contact at official level that you are concerned not only with simplifying the presentation of the tax tables, but with reducing the

number of tax classes. Our proposals this year for Hackneys and rigids, as well as the work we are now doing on amalgamating all the 'special machines' into a single class, are consistent with the theme of simplification. We will be able to say that over 60 hackney tax classes are being reduced to five, that six agricultural and works categories are being reduced to one, and that there will be nine fewer tax rates in the rigid HGV class.

I am afraid I do not see that we can do much more in this Budget. The first reason is time. Major changes in motoring tax structure require substantial re-programming of DVLC's computers, changing and reprinting forms, and the organisation of arrangements for refunds. There might just about be enough time before the budget to have the first shot at the programming, if all other vehicles work, including the scheme for sale of registration numbers, stopped. However, there would be no time to trial any of the new programmes, forms would have to be overprinted and there would be too great a risk of the exercise going seriously wrong. The second consideration is space. I think at least three more pages would be needed in the Finance Bill, depending on what form of simplification was chosen.

Apart from the practical and legislative implications, it is not easy to see what rationale should be chosen for wholesale simplification. I set out the arguments in my 21 October letter. Briefly, the HGV tax tables are complex because tax rates are affected by length of licence, weight of vehicle, number of axles, configuration (rigid or articulated) and use (the concessions for use by farmers and showmen). Withdrawing the 6-month licensing facility for HGVs would be strongly objected to: the cash-flow implications for hauliers are major. Weight and number of axles are what principally determines the wear and tear a lorry causes to the road. We could not maintain a policy of track cost coverage without them. That would have substantial implications in Europe as well as at home. Configuration does not affect wear and tear directly, but it is an easy way to distinguish between very different patterns of use which have different income and expenditure effects. Abolishing the farmers' concessions, which are based on surveys of actual use, would cause a storm of protest. Showmen's concessions apply only to a very few vehicles.

It is, however, theoretically possible to amalgamate the rates (rather than tax classes) produced by the current calculations by rounding, where the gaps between them are not too great. That is what we have done when recalculating the rigid rates this year, reducing the number of different rates charged. Because we have to demonstrate that each category covers its costs and that the resultant tax excesses follow a rational pattern, as well as trying to avoid tax rate reductions and consequent refunds, there are complex iterative sums to be done. During the coming months, we will have new traffic census and weight data for HGVs which will mean more recalculations of the track costs of articulated and rigid HGVs. I propose to ensure that when the track cost implications of that data are turned into proposed new tax rates for next

year, the objective should be that the number of different rates is kept to a minimum consistent with the other constraints. For this year's Budget, however, I think we must stick to the proposals I have already made - which can, as I have said above, be presented very positively.

channon

Paul

PAUL CHANNON

CONFIDENTIAL

Main Annual Rates of Vehicle Excise Duty : effective from 15 March 1989

1. PRIVATE / LIGHT GOODS VEHICLES

Private Vehicles, Cars, Light Vans, Estate Cars etc. (including goods vehicles not over 1,525 kgs unladen)	100.00
--	--------

2. HACKNEY CARRIAGES

Seats		
Under 9		
9 - 16		
17 - 35		
36 - 60		
over 60		

3. TRADE LICENCES

Trade Licences available for all vehicles	85.00 ()
Trade Licences available only for vehicles not over 450 kgs:- Bicycles, Tricycles and Pedestrian Controlled Vehicles	17.00 ()
*Rates in brackets applicable from 1.1.90	

4. BICYCLES, TRICYCLES, (not over 450 kgs)

	Over		
	150cc	250cc	
Motorcycles (with or without sidecar)	-	150cc	10.00
	150cc	250cc	20.00
	250cc	-	40.00
Tricycles	-	150cc	10.00
	150cc	-	40.00

5. RECOVERY VEHICLES

50.00

6. SPECIAL MACHINES

Agricultural Machines (Locomotive Ploughing Engines, Tractors, Agricultural Tractors or other Agricultural Engines) Fishermen's Tractors Digging Machines Mobile Cranes Works Trucks Mowing Machines	16.00
---	-------

7. GENERAL HAULAGE VEHICLES

Unladen Weight Up to but not over			
2 tons	(2,032.1 kgs)		179.00
4 tons	(4,064.2 kgs)		322.00
6 tons	(6,096.3 kgs)		465.00
7.25 tons	(7,366.4 kgs)		608.00
8 tons	(8,128.4 kgs)		743.00
9 tons	(9,144.5 kgs)		869.00
10 tons	(10,160.5 kgs)		995.00
11 tons	(11,176.5 kgs)		1,138.00
For each additional ton or part of a ton (ton = 1,016.1 kgs)			142.00

8. PLATEABLE RIGID AND ARTICULATED VEHICLES not over 12,000 kgs gross

Gross Weight / Train Weight (kgs)		
Over	Not Over	
-	7,500	130.00
7,500	12,000	290.00

9. NON - PLATEABLE VEHICLES (Restricted HGV)

130.00

10. "SPECIAL TYPES" VEHICLES

2160

11. PLATEABLE ARTICULATED GOODS VEHICLES over 12,000 kgs gross

Gross Train Weight (kgs)		TYPE OF VEHICLE					
		2 axle tractive/ any semi-trailer	2 axle tractive/ 2+ axle semi-trailer	2 axle tractive/ 3+ axle semi-trailer	3+ axle tractive/ any semi-trailer	3+ axle tractive/ 2+ axle semi-trailer	3+ axle tractive/ 3+ axle semi-trailer
Over	Not Over						
12,000	14,000	470.00	420.00	420.00	420.00	420.00	420.00
14,000	16,000	590.00	440.00	440.00	440.00	440.00	440.00
16,000	18,000	690.00	440.00	440.00	440.00	440.00	440.00
18,000	20,000	810.00	440.00	440.00	440.00	440.00	440.00
20,000	22,000	940.00	550.00	440.00	550.00	440.00	440.00
22,000	23,000	1,000.00	620.00	440.00	620.00	440.00	440.00
23,000	25,000	1,150.00	780.00	440.00	780.00	440.00	440.00
25,000	26,000	1,150.00	870.00	440.00	870.00	440.00	440.00
26,000	28,000	1,150.00	1,090.00	530.00	1,090.00	440.00	440.00
28,000	29,000	1,210.00	1,210.00	720.00	1,210.00	520.00	440.00
29,000	31,000	1,680.00	1,680.00	820.00	1,680.00	640.00	440.00
31,000	33,000	2,450.00	2,450.00	1,050.00	2,450.00	970.00	440.00
33,000	34,000	2,450.00	2,450.00	1,680.00	2,450.00	1,420.00	550.00
34,000	36,000	2,750.00	2,750.00	2,250.00	2,450.00	2,030.00	830.00
36,000	38,000	3,100.00	3,100.00	3,100.00	2,730.00	2,730.00	1,240.00

12. PLATEABLE RIGID GOODS VEHICLES over 12,000 kgs gross

Gross Weight (kgs)		TYPE OF VEHICLE		
		Rigid vehicle with 2 axles	Rigid vehicle with 3 axles	Rigid vehicle with 4+ axles
Over	Not Over			
12,000	13,000	110.00	250.00	320.00
13,000	14,000	570.00	240.00	340.00
14,000	15,000	740.00	340.00	340.00
15,000	17,000	1,130.00	340.00	340.00
17,000	19,000	-	540.00	340.00
19,000	21,000	-	730.00	340.00
21,000	23,000	-	1,000.00	490.00
23,000	24,390	-	1,780.00	-
25,000	26,500	-	-	690.00
27,000	29,000	-	-	1,110.00
29,000	30,490	-	-	2,680.00

13. TRAILER DUTY

Where the drawing vehicle has a plated weight over 12,000 kgs gross AND draws laden plateable trailers over 4,000 kgs gross weight additional trailer duty is payable.

Gross Trailer Weight (kgs)		
Over	Not Over	
4,000	8,000	80.00
8,000	10,000	100.00
10,000	12,000	130.00
12,000	14,000	180.00
14,000	-	355.00

IMPORTANT NOTES

Reduced rates are applicable to Farmers and Showman's Goods Vehicles. Information on those, 6 monthly and all other rates are given on form V149, available from Post Offices and Vehicle Registration Offices.

 The revised rates of duty are shown in the shaded areas.

THE TERM "PLATEABLE" IS NOT APPLICABLE IN NORTHERN IRELAND



Treasury Chambers, Parliament Street, SW1P 3AG

February 1989

Peter Bottomley Esq MP
Minister for Roads and Traffic
Department of Transport
2 Marsham Street
LONDON SW1P 3EB

1989 FINANCE BILL MINOR STARTERS

Thank you for your further letter on Finance Bill minor starters.

I am most grateful to you for agreeing to drop starters 600 (Northern Ireland/GB Mutual Licencing Exemption), 610 (Mine Rescue), and 630 (Failure to Notify Vehicle Keeper Changes).

I am grateful too for the clarification of your proposals on starter 606 (Dishonoured Cheques) and for your assurance that the penalty equivalent to the duty would be applied only following a successful conviction in the Courts. On that basis I am content that this starter should join those (starters 601, 605, 631, 632 and 633) for which I will endeavour to find Finance Bill space.

PETER LILLEY



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

February 1989

The Rt Hon Paul Channon MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON

Thank you for your recent letter outlining the results of the further work your officials have done on improving the presentation of the Vehicle Excise Duty tables. I am most grateful for their efforts.

Your proposal to reduce the number of tax rates in the rigid HGV class is welcome, coming as it does on top of the planned simplifications in the hackney and agricultural classes. I accept that given time constraints we cannot do much more in this Budget, and as you say, the proposals you have already made can be presented very positively. I am encouraged too by your plans to do further work on this in the coming months as I am hopeful that we can achieve further significant simplifications in the VED structure next year.

Turning now to your other suggestions for my Budget, I am content with your proposals to leave the main rates of VED unchanged, and that the rate for 'special types' be brought into line with the heaviest HGVs. I can confirm also that there should be substantial increases in the level of VED for hackneys so as to bring all classes within the group up to track cost coverage.

On rigid HGVs, I accept that we should take further steps to bring their excess further into line with that of artics. I note your proposal to link the increases in VED to the increases in motoring taxation generally, and I accept that there is logic in this. But pending the further work which your officials are doing on the simplification of the VED structure, I would prefer not to commit myself on this point just yet. For this year, I am content that we aim for the more modest of the two options outlined in your letter of 21 October; namely that which will yield around £18 million a year. Perhaps your officials could clear quickly with mine, the actual VED rates which will apply to the individual classes of rigids and hackneys.

Peter Lilley is writing to Peter Bottomley on the minor starters.

NIGEL LAWSON



FROM: S M A JAMES

DATE: 10 FEBRUARY 1989

MR MICHIE

cc:

PS/Chancellor
 PS/Chief Secretary
 PS/Financial Secretary
 PS/Paymaster General
 Sir P Middleton
 Mr Scholar
 Mr Culpin
 Mr Matthews
 Mr Gilhooly
 Mr Macpherson
 Mr Flanagan
 Mrs Chaplin
 Mr Call
 Mr Tyrie
 PS/C&E
 Mr Jefferson-Smith, C&E
 Mr Jenkins, Parly Counsel

Explanation is as follows:

- o cars pay more in motoring taxes (fuel duty & VED) than do rigid; this is because cars have a significantly higher annual mileage and pay more in fuel duty;
- o if we increase the fuel duty, cars are affected more than rigid, and we are 'obliged' to increase the rigid's VED to keep pace;
- o if there is no increase in fuel duty, the current imbalance between cars and rigid can be tackled in smaller steps, which is what Mr Channon proposes.

VEHICLE EXCISE DUTY

The Economic Secretary was grateful for your minute of 9 February.

2. He agrees with the recommendations on VED rates set out in paragraph 3 of your note. He has however commented that the fact that we are constrained only to raise VED on rigid if fuel taxation rises indicates the strange logic of the VED system. Normally raising one tax is a reason for not raising another. The Economic Secretary has no comments on the draft reply to Mr Channon which you will now be submitting to the Chancellor.

3. The Economic Secretary agrees to the inclusion of Starter 606 (dishonoured cheques) in the Finance Bill and has written today to Mr Bottomley.

S M A JAMES

Private Secretary



PPM *PM*

FROM: S M A JAMES
DATE: 10 FEBRUARY 1989

MR MICHIE

cc: PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Matthews
Mr Gilhooly
Mr Macpherson
Mr Flanagan
Mrs Chaplin
Mr Call
Mr Tyrie
PS/C&E
Mr Jefferson-Smith, C&E
Mr Jenkins, Parly Counsel

✓

VEHICLE EXCISE DUTY

The Economic Secretary was grateful for your minute of 9 February.

2. He agrees with the recommendations on VED rates set out in paragraph 3 of your note. He has however commented that the fact that we are constrained only to raise VED on rigids if fuel taxation rises indicates the strange logic of the VED system. Normally raising one tax is a reason for not raising another. The Economic Secretary has no comments on the draft reply to Mr Channon which you will now be submitting to the Chancellor.

3. The Economic Secretary agrees to the inclusion of Starter 606 (dishonoured cheques) in the Finance Bill and has written today to Mr Bottomley.

SMAJ

S M A JAMES
Private Secretary



FROM: N D HUGHES
DATE: 16 February 1989

MR C FINLINSON - C&E

cc: PS/Chancellor 2
PS/Financial Secretary
Mr Culpin
Mr Gilhooly
Mr Michie
Mr Call
Mr Jenkins - (OPC)

PS/IR
Mr Elliot - IR

PS/C&E
Mr Jefferson-Smith - C&E
Mr Wilmott - C&E
Mr Nissen - C&E
Mr McFarlane - C&E
Mr Fryett - C&E
Mr Holloway - C&E
Mr Gaw - C&E
Mr Kent - C&E
Mr Cockerell - C&E
Mr Deedman - C&E

RECOVERY OF OVERPAID TAX AND DUTY FROM CUSTOMS AND EXCISE

The Economic Secretary was grateful for your minute of 9 February. He has made the following comments :

- (i) there should be legislation to prevent 'unjust enrichment'
- (ii) a new time-limit on adjustments should not be imposed
- and (iii) there appears to be no need for 2 sets of regulations; one set to be introduced on 1.1.90 would seem sufficient.

N D HUGHES
Assistant Private Secretary

FROM: R G MICHIE
DATE: 14 February 1989

PS/CHANCELLOR

cc PS/EST

BUDGET 1989: VEHICLE EXCISE DUTY

*Chy Letter behind in folder.
14/2*

My submission of 9 February to the Economic Secretary (copy attached for ease of reference) outlined the outstanding Budget issues relating to VED, and sought his agreement to our proposals on both the main VED rates and the minor starters. The Economic Secretary has indicated that he is content with our recommendations, and has written to Peter Bottomley concerning the minor starters.

2. We presume that the Chancellor will now wish to advise Mr Channon of his decisions on the main VED rates, and of his hopes for further simplifications to the VED tax classes. The background to these issues is contained in paragraphs 3/6 of my submission to the Economic Secretary.

3. I attach a draft letter to Mr Channon.

R. George Michie

R G MICHIE

Oranina photo
(part made Sweden)



Board Room
H M Customs and Excise
New King's Beam House
22 Upper Ground
London SE1 9PJ
Telephone: 01-382 5011

P Jefferson Smith
Deputy Chairman

FROM: P JEFFERSON SMITH
DATE: 16 FEBRUARY 1989

CHANCELLOR

CAR TAX RELIEF ON CARS SUPPLIED TO MOTABILITY FOR LEASING

You asked for further information regarding the above proposal.

Take up of present reliefs

1. DSS tell us that Motability currently own about 67,500 vehicles which are either on lease or the subject of a hire-purchase agreement with the disabled owner. Vehicle purchases in 1987 and 1988 totalled 17,500 and 28,400 respectively; approximately two-thirds being subsequently leased and one-third sold on hire purchase to disabled persons. We understand that Motability has the capacity to process a maximum of 40,000 vehicles per annum. The revenue cost of a relief on car tax for leased vehicles would be roughly £5m in 1989-90 and £10m in 1990-91. This could, of course, increase if the leasing became more attractive as a result of any concession. The concession would be worth about £400 per car, and Motability could be expected to pass it on in lower initial payments and insurance charges, thus increasing the uptake of the scheme.

Distribution:

Chief Secretary	Mr A C S Allan	Chairman)
Financial Secretary	Mr Macpherson	Mr Finlinson)
Paymaster General	Miss Simpson	Mr Wilmott)
Economic Secretary	Mrs Chaplin	Mr Nissen)
Sir Peter Middleton	Mr Tyrie	Dr McFarlane) C & E
Sir Terence Burns	Mr Call	Mr Allen)
Mr Anson		Mr Holloway)
Dame Anne Mueller	Sir Anthony Battishill)	Mr Deedman)
Mr Wicks	Mr Beighton)	
Mr Hardcastle	Mr Isaac)	
Mr Byatt	Mr Painter) IR	
Mr Scholar	Mr Bush)	
Mr Culpin	Mr Calder)	
Mr Gilhooly	Mr McManus)	
Mr Michie			
Mr Pickford			
Mr Riley			
Mr Sedgwick			
Mr Matthews			

2. We cannot give a figure for the number of disabled drivers, ie disabled persons holding a driving licence. However, DSS say that 565,000 persons claim mobility allowance, and these are the people eligible to get cars from Motability. This figure includes non-drivers, eg those under-age, but the mobility scheme extends to the provision of vehicles for disabled driver and non-driver alike (ie including those wishing to use the vehicle as a passenger). Mobility allowance will be £24.40 a week from 1 April.

Scope of present reliefs

3. It may be helpful to summarise the existing reliefs.

4. There is complete relief from VAT and car tax on vehicles "designed or substantially and permanently adapted for the carriage of a disabled person in a wheelchair or on a stretcher." This applies whether the car is hired or purchased. The eligible population must be very small. Because of the cost of conversion, in relation to the tax relieved, the relief is effectively self-policing.

5. The cost of adapting a vehicle to suit the needs of a disabled person is relieved of VAT by zero-rating the supply.

6. Vehicles used exclusively by a disabled person in receipt of a mobility allowance are exempt from vehicle excise duty.

7. At present, neither VAT nor car tax is relieved on cars purchased by the disabled, other than those for wheelchair or stretcher travellers, even though the cars may have some degree of adaptation. This is essentially for reasons of control: it would be very difficult to check on subsequent use and disposal of the cars which may be ordinary production models, so as to prevent disabled people from abusing the scheme by purchase and rapid resale. The difficulty is both of official resources and of appearing to hassle the disabled.

8. Where Motability buy the vehicles (VAT and car tax paid) for leasing to the disabled, VAT can be reclaimed as input tax in the normal way. Since the hire of vehicles to the disabled has since 1984 been a zero-rated supply, VAT is effectively relieved.

Why no car tax relief?

9. Relief from car tax on vehicles bought by Motability for leasing has previously been refused partly on grounds of revenue cost and partly for control reasons. Car tax is a single stage tax charged on manufacture and it is impractical to police subsequent use. If there was a concession for Motability leased cars, this would be given once for all, when the cars were acquired. It would seem desirable to stipulate that the relief was conditional on the leasing being for a three year period.

Form of Legislation

10. In the note for the previous Overview, we advised that the relief could be given by Order. In view of the need to set conditions, primary legislation may be required. If you wish to proceed with this relief, we will consider this point further.

Ph 5

P JEFFERSON SMITH

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01 276 3000



0198

My ref :
Your ref :

pw

The Rt Hon Nigel Lawson, MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

CHIEF SECRETARY	
REC.	17 FEB 1989
ACTION	Mr WILLIAMS
COPIES TO	EXISTING Mr ANDERSON
	Mr MACKAY Mr PHILLIPS
	Mr CASE, Mrs TOMAS, Mr A WILLIAMS
	Mr BURGESS Mr GILL

17 FEB 1989

Dear Nigel

THE VEHICLE REGISTRATION LETTER

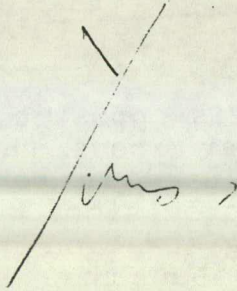
My Private Secretary wrote to his opposite number at No 10, copied to your office, on 22 December about the proposal for an E(A) discussion of the year-letter used in vehicle registration. He pointed out that legislative provisions to enable the Government to sell attractive vehicle registration numbers were intended to go in the 1989 Finance Bill, but that sales under that scheme might be adversely affected if as a result of the E(A) discussion, it was decided not just to re-examine the year-letter itself but to announce the examination of fundamental changes to the UK vehicle registration system. My proposal was that, in order to leave all possible options open, it would be preferable for the E(A) discussion to take place before the Budget.

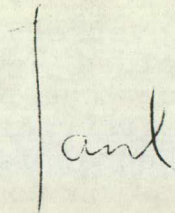
I understand a slot had been reserved in the week before the Budget - on 9 March. That meeting has now had to be cancelled, and the previous week's E(A) already has an overloaded agenda. The paper I am preparing for E(A) could not be ready before then.

There is a further meeting booked for 16 March - two days after the Budget. Subject to your views, it would seem possible for no reference to be made to the sale of registration numbers provisions in the Budget speech and for them to be announced when the Finance Bill is published, which I believe will be on 13 April, though obviously the Bill must be finished well before then. I understand this creates a complication in respect of the Budget Red Book, however, if there was a reference to 1989-90 and 1990-91 income from the sale scheme in the Red Book published on Budget day, the options I had sought to keep open would, at least to a degree, be constrained.

To avoid this, I hope you will be able to agree that no such reference should be put in the Red Book. The likely income from the sale scheme, though still the subject of some speculation since the concept is novel and the public's reaction is unpredictable, is unlikely to be very large in Budget terms. The current business case suggests a gross income of £2m in 1989-90, and £12m, plus a few million from associated fees for "cherished transfer" of the numbers sold, in 1990-91.

I am copying this letter to the Home Secretary, the members of E(A) and to Sir Robin Butler.




PAUL CHANNON

b.f. 28/2



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01 276 3000

My ref :
Your ref :

Handwritten notes:
Pse...
✓
in...
Flanagan

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Dear Nigel,

CH/EXCHEQUER	
REC.	20 FEB 1989
ACTION	CST
COPIES TO	MR Culpin
	Mr. Flanagan

✓ 20/2
17 FEB 1989

THE VEHICLE REGISTRATION LETTER

My Private Secretary wrote to his opposite number at No 10, copied to your office, on 22 December about the proposal for an E(A) discussion of the year-letter used in vehicle registration. He pointed out that legislative provisions to enable the Government to sell attractive vehicle registration numbers were intended to go in the 1989 Finance Bill, but that sales under that scheme might be adversely affected if as a result of the E(A) discussion, it was decided not just to re-examine the year-letter itself but to announce the examination of fundamental changes to the UK vehicle registration system. My proposal was that, in order to leave all possible options open, it would be preferable for the E(A) discussion to take place before the Budget.

I understand a slot had been reserved in the week before the Budget - on 9 March. That meeting has now had to be cancelled, and the previous week's E(A) already has an overloaded agenda. The paper I am preparing for E(A) could not be ready before then.

There is a further meeting booked for 16 March - two days after the Budget. Subject to your views, it would seem possible for no reference to be made to the sale of registration numbers provisions in the Budget speech and for them to be announced when the Finance Bill is published, which I believe will be on 13 April, though obviously the Bill must be finished well before then. I understand this creates a complication in respect of the Budget Red Book, however, if there was a reference to 1989-90 and 1990-91 income from the sale scheme in the Red Book published on Budget day, the options I had sought to keep open would, at least to a degree, be constrained.

To avoid this, I hope you will be able to agree that no such reference should be put in the Red Book. The likely income from the sale scheme, though still the subject of some speculation since the concept is novel and the public's reaction is unpredictable, is unlikely to be very large in Budget terms. The current business case suggests a gross income of £2m in 1989-90, and £12m, plus a few million from associated fees for "cherished transfer" of the numbers sold, in 1990-91.

I am copying this letter to the Home Secretary, the members of E(A) and to Sir Robin Butler.

[Handwritten mark]

[Handwritten signature]

PAUL CHANNON



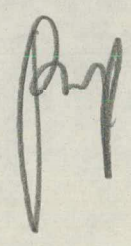
Board Room
H M Customs and Excise
15th Floor Alexander House
21 Victoria Avenue
Southend-on-Sea
SS99 1AA
0702 348944

FROM: C C FINLINSON
Director VAT Control

DATE: 22 February 1989

BUDGET CONFIDENTIAL

ECONOMIC SECRETARY

✓ / 

STATUTORY RIGHT TO REPAYMENT OF CAR TAX

1. We will act on the decisions contained in your Assistant Private Secretary's minute of 16 February. This note deals with the application of the same principle to car tax.

2. Consideration of the legislation for the statutory repayment of VAT and excise duty (Starter 36) has brought to light the possibility that car manufacturers may under existing regulations be entitled to a refund of car tax overpaid in error even where unjust enrichment ensues. We seek your agreement to the inclusion of car tax within Starter 36 in order to preserve parity in this respect with VAT and excise duty.

Background

3. Car tax currently raises about £1,300 million per annum. For the most part, it is paid initially by UK manufacturers and importers but ultimately by

Circulation:

Chancellor
Financial Secretary
Mr Culpin
Mr Gilhooly
Mr Michie
Mr Call
Mr Jenkins (OPC)
PS/Inland Revenue
Mr Elliott (IR)

CPS
Mr Jefferson Smith
Solicitor
Mr Nissen
Dr McFarlane
Mr Holloway
Mr Ferguson
Mr Deedman

the vehicle purchaser by virtue of the inclusion of the appropriate tax element within the retail price.

4. Most manufacturers and importers are registered for car tax purposes. They are required to submit returns quarterly and pay the appropriate amount of car tax due. The return form provides for underpayments of tax to be declared and carried forward as part of the total amount of tax to be paid but makes no special provision for overpayments. The normal practice is for any overpayment to be either adjusted within the registered person's own accounts (and the net amount of tax due entered on the return form) or offset against underpayments.

Problem Areas

5. Adjustments of car tax by way of under and overdeclarations attributable to simple error rarely give rise to any difficulty. Although it is possible to argue that the regulations lack precision in this respect, they appear to work well, partly due of course to the degree of control we devote to the small number of businesses registered for car tax. Certainly there has been no suggestion that the lack of a statutory right to recover overpaid car tax is an inhibiting factor.

6. There is always the possibility however of disputes concerning the value for car tax purposes or the liability of the vehicle to any tax at all. If a manufacturer/importer pays tax under protest pending resolution of the dispute, clearly he is entitled to recover any tax which is subsequently established to have been overpaid. He may however have paid tax - and passed it on to his customers - in the belief that it was properly due. The realisation that it was not due, and is recoverable, may in turn lead to a windfall profit to which, by virtue of unjust enrichment, we would argue he is not entitled.

The Way Forward

7. The problem is more apparent than real in the sense that there are relatively few disputes of the kind which give rise to unjust enrichment. The proposals which you have already agreed on VAT and excise duty do however provide an opportunity to bring car tax into line, the more so because in the light of the House of Lords judgment on Fine Art Developments we no longer have to give effect to a statutory right to repayment of overpaid VAT. There is now

E. R.

no dispute that this right exists in respect of VAT, excise duty and car tax. We therefore recommend that the opportunity should be taken to extend the provisions of Starter 36 to car tax.

8. There will be no discernible effect on revenue, but the measure is restrictive, as it is for VAT and excise duty, insofar as it will have the effect of barring claims for repayment of car tax where unjust enrichment would result. Nevertheless we do not think the car tax element will appear unreasonable to the trade who we shall in any event consult over the supporting regulations.

9. If you are content, we will amend our instructions to Parliamentary Counsel accordingly.

CCF.

C C FINLINSON

I agree. The members of X would appear in the FSBR as "negligible" and "£10m" respectively. As Mr. Flanagan points out, there is a fairly

FROM: S J FLANAGAN
DATE: 23 February 1989

1. MR GILHOOLY wide measure of uncertainty about
2. CHANCELLOR these estimates. It is not necessarily the case that E(A)'s discussions would increase the margin of error.

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Burgner
Mrs Case
Mr Culpin
Mr Riley
Mr J Mortimer
Mr Revolta
Mr Macpherson
Mr Michie
Ms Roberts
Mr A R Williams

I agree that it seems very desirable not to offer introduction at Committee stage. To do so would set a very unhappy example for colleagues.

Chy content to write as proposed?
OK on 23/2

SALE OF "CHERISHED" REGISTRATION NUMBERS

Mr Channon wrote to you on 17 February, asking you to omit the proposal to sell cherished vehicle registration numbers from the FSBR, but to still include it in the Finance Bill. The problem is that an E(A) meeting on 16 March will discuss the future of the vehicle registration system generally. Mr Channon thinks that it could have a major impact on the proposed sales.

2. Table 4.1 of the FSBR shows all the tax measures in the Budget which cost or yield more than £3 million, or which are significant for some other reason. The proposal to sell registration numbers appears in the Finance Bill because the House Authorities have ruled that it is a "charge upon the people" and so not suitable for a Private Member's Bill. It is therefore scored as a tax. The current, very cautious, estimate we and DTp are using suggests that it will yield £2 million in 1989-90 and £12 million in 1990-91. Market research commissioned by DTp has suggested that the proposal could yield up to ten times that much.

3. Omitting the cherished numbers proposal would thus undermine the comprehensiveness of the FSBR, which could be damaging to its credibility. We assume that you would not want to do this. That leaves three options:

- (i) include the measure in both the FSBR and the Finance Bill;
- (ii) omit the measures from the FSBR, and introduce it at Committee stage;
- (iii) defer the measure until next year.

Include in both FSBR and Finance Bill

4. Whatever changes to the registration system E(A) decides upon, there will still be spare numbers which could be sold. Indeed, the first draft of the paper for E(A) seems to come out against any change, certainly in the immediate future. The legislation, which has already been drafted, would allow the Secretary of State to make regulations governing the sale of registration numbers. As currently planned, the scheme would not start until December. So Mr Channon should have time to adjust it to fit any revised general registration system.

5. We cannot, of course, compel Mr Channon to go ahead with this policy if he thinks it isn't worthwhile, but you could ask him to consider whether he really thinks E(A)'s decision would torpedo the planned sale of registration marks, or whether it could simply force him to change details.

Omit from FSBR, introduce at Committee Stage

6. If the clauses were to be introduced at Committee stage, we could quite reasonably omit any mention from the FSBR without leaving ourselves open to criticism. This would also allow time to consider the implications of the E(A) discussion before deciding whether or not to go ahead.

7. Against this, we are trying to minimise the number of measures introduced at Committee stage. To introduce a quite novel policy - and one which we expect to be popular - apparently

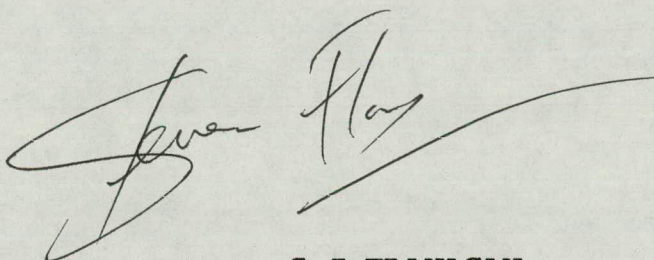
by the "back door" would seem odd. At the Overview meeting on 30 January you said that all tax changes included for policy reasons must be in the Bill when published, and that only anti-avoidance measures should be introduced at Committee stage.

Defer until next year

8. If the E(A) discussion does have ramifications requiring major changes to the proposal for selling registration numbers, it might be better to leave the whole proposal until next year's Finance Bill, so that it can be fully integrated with whatever new registration system appears. But while this would avoid the presentational difficulties associated with introducing the clauses at Committee stage, it would be a shame to have to further delay this attractive proposal, which was first floated for the 1985 Finance Bill.

Conclusion

9. Unless you wish to make an exception from your general rule of not introducing new policy measures at Committee stage, we suggest that you write to Mr Channon asking him to consider rapidly whether E(A) is really likely to undermine the proposal to sell registration numbers, and pointing out that the alternative is to leave the measure until next year. A draft letter is attached.



S J FLANAGAN

Be type print

DRAFT LETTER FROM THE CHANCELLOR TO THE SECRETARY OF STATE FOR TRANSPORT

SALE OF CHERISHED REGISTRATION NUMBERS

Thank you for your letter of 17 February.

2. The Financial Statement and Budget Report (FSBR, or "Red Book") contains a full list of tax measures in the Finance Bill which either have a non-negligible cost or yield, (that is, £3 million or more) or which are significant for some other reason. As we already have the ruling of the House authorities that the provisions to sell registration numbers are a "charge upon the people", and the yield is expected to reach £12 million in 1990-91, ~~I do not think~~ ^{now} I could omit this measure from the FSBR without undermining its comprehensiveness and hence its credibility.

3. That leaves two possible courses of action. ^(as I would hope,) If you think you could still go ahead with sales of registration numbers whatever E(A) decides, albeit perhaps with some changes of detail to the scheme, then we could still include the measure in this year's Finance Bill and FSBR. If, on the other hand, you think that the E(A) discussion might make it impossible to go ahead with the sales, then I am afraid we will have to put this measure off until the 1990 Finance Bill.

4. Given the tightness of both the FSBR and the Finance Bill timetables, I would be grateful if you could let me know by the

end of next week whether you would still wish to go ahead with this measure this year, or whether you would prefer it to be deferred until next year.

5. I am copying this letter to the Home Secretary, to the members of E(A) and to Sir Robin Butler.

[2]



Inland Revenue

Personal Tax Division
Somerset House

Is there evidence to support X? If so, let us know or it will be withdrawn in debate. 2. Y is also of importance.

FINANCIAL SECRETARY

FROM: P LEWIS

EXT: 6371

DATE: 22 FEBRUARY 1989

CAR SCALES: HIGH BUSINESS MILEAGE

1. Mr Satchwell asked if I could let you have a quick note on the options for easing the car scales for those who travel a high business mileage.

2. At present the scales cater for high business mileage drivers in two ways. First, if more than 18,000 business miles are driven during the course of the year the main scale charge is reduced by half. Second, if free fuel is provided (as it is for about 60% of company car drivers) the fuel scale charge is also reduced by half.

3. The car scales facing these drivers for next year - assuming a 20% increase in the car scales - would be as follows

cc PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Jenkins (OPC)

Chairman
Mr Painter
Mr Bush
Mr Lewis
Mr Massingale
Mr Hodgson
Mr I Stewart
Mr Evershed
PS/IR

<u>Engine size etc</u>	<u>Car scale</u>	<u>Weekly tax payable by basic rate taxpayer</u>	<u>Extra weekly tax payable in 1989/90 by basic rate taxpayer</u>
Up to 1400cc	£ 630	£ 3.03	£0.50
1401-2000cc	£ 840	£ 4.04	£0.67
Over 2000cc	£1320	£ 6.35	£1.06
Cars costing over £19,250	£1740	£ 8.37	£1.39
Cars costing over £29,000	£2740	£13.27	£2.21

4. About one fifth of company car drivers claim to drive over 18,000 business miles a year. On present plans, only a very small number, with the largest cars, would be losers from the combined personal allowance and car scale changes.

Possible changes

5. There are three main changes which could be considered to the present car scale structure

- increasing the present 50% discount for high business mileage drivers
- reducing the business mileage level at which the high business mileage driver discount starts from 18,000 to, say, 15,000, 12,000 or 10,000 miles
- creating an additional category of high business mileage drivers at a higher business mileage point - say 30,000 business miles - to qualify for a higher discount.

In costing these options in the following paragraphs it is assumed that the fuel scale discount would also be changed in line with the change to the car benefit scales, and that the car scales will be increased by 20% for 1989/90.

Increasing the high business mileage discount

6. One option would be to increase this to 75%. The cost in 1989/90 would be £40m and in 1990/91 £45m.

7. Combined with a general 20% increase in the scales, this option would have the effect of reducing the tax currently payable by the 300,000 high business mileage drivers by 40%.

8. Another option would be to increase the discount to 60%. This would cost about £15m in 1989/90 and 1990/91.

9. This option would effectively wipe-out (and very slightly more) the effect of a 20% increase in the car scales leaving high business mileage drivers paying very slightly less tax next year than this.

Reducing the business mileage test for reduced car scales

10. There is no particular logic about the figure of 18,000 miles. A reduction in the qualifying mileage limit would go some way to meet those who claim that the present figure is unfair to people who do most of their business mileage in town where they may spend longer behind the wheel than people who work in country areas but cover a smaller mileage.

11. The costs of reducing the qualifying business mileage are approximately as follows

<u>Qualifying mileage</u>	<u>Numbers benefiting (thousand)</u>	1989/90 and 1990/91 (liabilities)* £m
15,000	100	30
12,000	250	70
10,000	300	100

* The effect on receipts would depend on how quickly taxpayers claimed their extra relief - see paragraph 18. On the basis of receipts, the cost in 1989/90 could be substantially lower, and in 1990/91 substantially higher than the figures given.

12. A CBI-sponsored amendment to reduce the 18,000 mile limit to 10,000 miles was debated briefly at Committee Stage last year. In replying, the Paymaster said the Government had no intention of changing the mileage limits and engaging in more fine tuning until cars were more fully taxed than at present.

Extra relief for very high mileage drivers

13. The proposal here would be to give extra relief for particularly high business mileage. One possibility might be to have a 75% discount where the business miles in any year exceeded 30,000. (This proposal was considered, at the Chancellor's request, before the 1988 Budget - Miss Rhodes' minute of 22 October 1987, paragraphs 36-39).

14. Few drivers (at present) do this sort of mileage, so the cost and numbers affected would be smaller. The best estimates we can make are that about 80,000 drivers would benefit, and that the cost (liabilities not receipts) would be about £15m in 1989/90 and 1990/91.

Combined changes

15. It would, of course, be possible to combine two or all three of the changes mentioned above, depending on what Ministers' objectives were in wishing to reduce the tax burden on high

business mileage drivers. The first gives more relief to people who qualify already, the second increases the number who qualify for the present relief by easing the mileage qualification, and the third provides a new tougher test as a passport to extra relief.

Operational

16. We have only looked at this very quickly so far.

17. The first change presents the least difficulty because it involves extra relief for the present population of high business mileage drivers. Our preliminary view is, therefore, that that could be implemented through the Budget re-coding without any alteration to the presently envisaged timetable (ie implementation from 17 May).

18. The other two changes involve identifying new populations of claimants ie drivers who expect to do the specified mileages in the next year. Implementation for 1989/90 would be bound to be patchy because we would have to either ask these people to write into us individually to have their codes changed, or we would have to adjust their tax liabilities individually after April 1990 when (through the P11D return) it became apparent they were entitled to extra relief. Again the Budget implementation timetable would not be affected.

19. Operationally, giving extra relief to the over 30,000 business miles driver is the easier of these two options because of the smaller number of people involved.

Staffing

20. The first change would have no on-going staff cost. The second and third might have some small cost.

Legislation

21. Additional Finance Bill legislation would be required, though for any of these changes it should be fairly

straightforward and short. But the car provisions need to be in a PCTA Resolution published on Budget Day, so there is very little time for finalising any new proposal and getting it drafted.

Evaluation

a. Merits

22. On merits, there seems little or no case for making any changes of this kind.

23. The reason, essentially, is that the private mileage travelled by company car drivers is on average greater than the private mileage travelled by private motorists; and there is no indication that it drops off even with very high business mileages. If you accept that the purpose of the car scales is to tax the employee on the value to him of being able to use his company car for private use, then the benefit is quite independent of the number of business miles travelled.

24. You will recall that we discussed this point at some length in the Autumn when you considered the main submission on the car scales. You were inclined to accept that this was in principle the right approach to car benefit taxation. But you said (your note of 9 December to the Chancellor) that "equally there is in the Parliamentary Party a widespread and very strong gut feeling that it would be wrong to tax a Rep using his car full time for business on the same basis as the person using it only occasionally for work, even if their private use is identical."

25. Even if the view that, on average, private mileage does not vary with business mileage is accepted, it can be argued that the Rep should be charged less because if the employer's costs of providing the car are apportioned between business and private use, a smaller amount will inevitably be regarded as private if there is a high business mileage. But, as we discussed at the time, we think the better view (and the approach adopted in a number of leading countries, such as the United States) is to look at the amount it would cost the employee to provide himself

with a car to travel the average private mileage. This is also the view which generally seems to be taken by management consultants when evaluating how much the private use of a car is worth to an employee in salary terms.

26. Nevertheless, we have in the past done some work on how the scales would look if they were based on the proportion of private to total mileage applied to total costs (the SMMT's preferred approach). This work suggested that even on this approach and at relatively high business mileage (certainly up to 30,000) the current 50% discount is over-generous. It follows that the apportionment approach to the car scales also provides no justification for lowering the present high mileage threshold or increasing the discount across the board.

b. Compliance/Policing

27. At a practical level the introduction of a further mileage test, or more people being brought within the scope of the existing one, would be a retrograde step. For one thing, the mileage tests are among the clearest examples of fiscal distortions, with business motorists seeking to drive the extra business journeys necessary to bring them into the reduced taxation band. At this time of year, advice to that effect regularly appears in the weekend newspapers. There is also, of course, a compliance burden for the taxpayer in keeping records of business mileage, and a policing problem for the Revenue in checking their accuracy. The scales were introduced partly to avoid that kind of hassle. And it is notable that the business mileage of company cars according to our records is significantly higher than that shown in the Department of Transport's National Travel Survey.

c. Stability/Structure

28. These changes would all be of the arbitrary, line-drawing kind. They would thus be likely to generate amendments and representations to put the dividing line elsewhere because some

people will always fall on the wrong side. It seems better to avoid any structural change of this kind until Ministers have decided what car scales they want in the longer term.

d. Presentation

29. You would also need to consider how changes of this kind would be presented in the context of the Budget. There is still a widespread view that the Chancellor will again double the car scales this year. The current proposals are likely to be greeted, by the car industry and business motorists, with enormous relief. So there seems no pressing need for action on high business mileage motorists this year - and indeed it would not sit easily with what the Chancellor said last year about the general scale of the under-taxation of company cars, which arguably applies - on the "value to the employee" basis - in particular to those who benefit from the 50% discount at present.

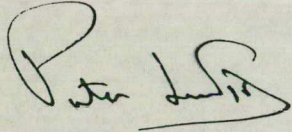
Summary

30. Several options are available if Ministers wish to consider quick changes giving further relief for high business mileage motorists. We could work them up further if Ministers indicate which particular categories they wish to benefit, and the general approach they prefer.

31. But both on merits and practicalities any change of this kind appears very unattractive. Arguably the high business mileage driver is already in a very favourable position both in relation to the car scales and free fuel. Structural changes might be better left until Ministers have a clearer picture of the final structure they are aiming for.

32. In part, this is a problem of perception, as you recognised in our earlier discussions. We have, perhaps, in the past been too ready to talk about the undertaxation of "perk" cars - which the "tool of the trade" driver sees as nothing to do with him -

when in reality we have been talking about the value of the private use of a car for all company car drivers. This is something we can work on in presenting the changes this year.

A handwritten signature in black ink, appearing to read "Peter Lewis". The signature is stylized with a large initial "P" and a long horizontal stroke at the end.

P LEWIS

CONFIDENTIAL



FROM: J M G TAYLOR

DATE: 23 February 1989

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
 PS/Paymaster General
 PS/Economic Secretary
 Sir P Middleton
 Mr Scholar
 Mr Culpin
 Mrs Chaplin
 Mr Tyrie
 Mr Call
 Mr Jenkins - OPC

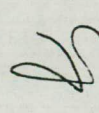
Sir A Battishill - IR
 Mr Painter - IR
 Mr Bush - IR
 Mr Lewis - IR
 PS/IR

CAR SCALES: HIGH BUSINESS MILEAGE

The Chancellor has seen Mr Lewis' note of 22 February.

2. He has asked whether there is evidence to support the statement (paragraph 23) that there is no indication that private mileage drops off even with very high business mileages. If so, he would be grateful to see this: it will be invaluable in debate.

3. He has also noted Mr Lewis' conclusion that we have in the past perhaps been too ready to talk about the under-taxation of "perk" cars when in reality we have been talking about the value of the private use of a car for all company car drivers. He notes that this is something to be worked on in presenting the changes this year; and has commented that this is of the first importance.


 J M G TAYLOR



FROM: FINANCIAL SECRETARY
DATE: 23 February 1989

CHANCELLOR

cc Chief Secretary
Paymaster General
Economic Secretary
Sir P Middelton
Mr Scholar
Mr Culpin
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Jenkins - OPC
Mr Painter)
Mr Lewis) IR
PS/IR

[Handwritten notes in red ink:]
[Accounts to 2006]
25?
30?
35?
Agreed, subject to
reassessment of
size of increase
look of
WICS
perhaps

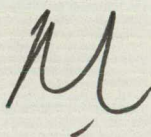
CAR SCALES: HIGH BUSINESS MILEAGE

I considered the issue of a concession for high business mileage users back in December (my minute to you of 9 December); I did look at it again and I have, following our conversation, looked once more at it now. But despite the gut feeling in the Party that these people should be helped, my view is that we should leave the structure of the car scales alone this year.

I am of course influenced in this by the fact that the increase in the scales this year will be only 20%. As Mr Lewis points out in his minute of 22 February, that is a lot less than people are expecting. Indeed, 20% is not much more than the amount needed just to ensure that the cash size of the untaxed benefit does not increase. It would be difficult to introduce a relatively low increase and help high business mileage users without eating some humble pie out of what the Paymaster said at Committee Stage last year.

Moreover, any change in the scale charges simply either shifts the existing arbitrary lines or exacerbates the steps involved in crossing them. We would not therefore have "solved" the problem

of the car scales; but merely exchanged it for another with (presumably) a different set of complainants. I agree with you that we ought to highlight the "available for private use" point. I have been endeavouring to do that in letters on this subject; though I am bound to say it isn't always readily accepted! Nonetheless, as I say, I would stick with our existing package.

A handwritten signature in dark ink, appearing to be the name 'Norman' in a cursive style.

NORMAN LAMONT



FROM: J M G TAYLOR

DATE: 24 February 1989

PS/FINANCIAL SECRETARY

JMT

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Jenkins - OPC

Mr Painter - IR
Mr Lewis - IR
PS/IR

CAR SCALES: HIGH BUSINESS MILEAGE

The Chancellor was grateful for the Financial Secretary's note of 23 February.

2. He agrees with the Financial Secretary's conclusion that we should leave the structure of the car scales alone this year. He agrees more generally that we should stick with the existing package, subject to reconsideration of the size of the increase in the light of any changes in NICs.

A handwritten signature, likely of J M G Taylor, consisting of stylized initials.

J M G TAYLOR



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

24 February 1989

Rt Hon Paul Channon MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

cc: PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Burgner
Mrs Case
Mr Culpin
Mr Riley
Mr Gilhooly
Mr J Mortimer
Mr Revolta
Mr Flanagan
Mr Macpherson
Mr Michie
Ms Roberts
Mr A R Williams

SALE OF CHERISHED REGISTRATION NUMBERS

Thank you for your letter of 17 February.

The Financial Statement and Budget Report (FSBR, or "Red Book") contains a full list of tax measures in the Finance Bill which either have a non-negligible cost or yield, (that is, £3 million or more) or which are significant for some other reason. As we already have the ruling of the House authorities that the provisions to sell registration numbers are a "charge upon the people", and the yield is expected to reach £12 million in 1990-91, I could not omit this measure from the FSBR without undermining its comprehensiveness and hence its credibility.

That leaves two possible courses of action. If, as I would hope, you think you could still go ahead with sales of registration numbers whatever E(A) decides, albeit perhaps with some changes of detail to the scheme, then we could still include the measure in this year's Finance Bill and FSBR. If, on the other hand, you think that the E(A) discussion might make it impossible to go ahead with the sales, then I am afraid we will have to put this measure off until the 1990 Finance Bill.

Given the tightness of both the FSBR and the Finance Bill timetables, I would be grateful if you could let me know by the end of next week whether you would still wish to go ahead with this measure this year, or whether you would prefer it to be deferred until next year.



I am copying this letter to the Home Secretary, to the members of E(A) and to Sir Robin Butler.

A handwritten signature in black ink, appearing to read "Nigel Lawson".

NIGEL LAWSON



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01 276 3000

My ref :

Your ref :

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Handwritten: Pse copy no previous letter (immediately behind)

Handwritten: good :-

3 MAR 1989

SALE OF CHERISED REGISTRATION NUMBERS

Thank you for your letter of 24 February. I am grateful for your explanation of the significance of this measure for the FSBR.

Given this background and the tightness of the timetable, I have carefully considered the arguments for and against delaying the putting of the sale of numbers provisions on the statute book. I think we should go ahead. I would be grateful if you would, as originally agreed, arrange for the clauses to be included in the Financial Bill and the projected income to appear in the FSBR.

I am copying this letter to the Home Secretary, the members of E(A) and Sir Robin Butler.

CH/EXCHEQUER	
REC.	- 3 MAR 1989
ACTION	MR FLANNAGAN
COPIES TO	PS/CST, PS/EST, PS/PMG, PS/EST MR BURROWER, MR CAW MR CULLEN, MR RILEY MR GELHOOLY, MR MORTIMER MR REVERTA, MR MACPHERSON MR MICHIE, MR ROBERTS MR AR WILLIAMS

Handwritten: 1313 K O'neil

PAUL CHANNON
(Approved by the Secretary of State and signed in his absence)

Major Annual Rates of Vehicle Excise Duty : effective from 15 March 1989

1. PRIVATE / LIGHT GOODS VEHICLES

Private Vehicles, Cars, Light Vans, Estate Cars etc. (including goods vehicles not over 1,525 kgs unladen)	100.00
--	--------

2. HACKNEY CARRIAGES

Seats	
Under 9	
9 -16	
17 -35	
36 -60	
over 60	

3. TRADE LICENCES

Trade Licences available for all vehicles	85.00 ()
Trade Licences available only for vehicles not over 450 kgs :- Bicycles, Tricycles and Pedestrian Controlled Vehicles	17.00 ()
*Rates in brackets applicable from 1.1.90	

4. BICYCLES, TRICYCLES, (not over 450 kgs)

	Over		
	150cc	250cc	
Motorcycles (with or without sidecar)	-	150cc	10.00
	150cc	250cc	20.00
Tricycles	-	150cc	10.00
	150cc	-	40.00

5. RECOVERY VEHICLES

50.00

6. SPECIAL MACHINES

Agricultural Machines (Locomotive Ploughing Engines, Tractors, Agricultural Tractors or other Agricultural Engines) Fishermen's Tractors Digging Machines Mobile Cranes Works Trucks Mowing Machines	16.00
---	-------

7. GENERAL HAULAGE VEHICLES

Unladen Weight Up to but not over			
2 tons (2,032.1 kgs)			179.00
4 tons (4,064.2 kgs)			322.00
6 tons (6,096.3 kgs)			465.00
7.25 tons (7,366.4 kgs)			608.00
8 tons (8,128.4 kgs)			743.00
9 tons (9,144.5 kgs)			869.00
10 tons (10,160.5 kgs)			995.00
11 tons (11,176.5 kgs)			1,138.00
For each additional ton or part of a ton (ton = 1,016.1 kgs)			142.00

8. PLATEABLE RIGID AND ARTICULATED VEHICLES not over 12,000 kgs gross

Gross Weight / Train Weight (kgs)		
Over	Not Over	
-	7,500	130.00
7,500	12,000	290.00

9. NON - PLATEABLE VEHICLES (Restricted HGV)

130.00

10. "SPECIAL TYPES" VEHICLES

23.00

11. PLATEABLE ARTICULATED GOODS VEHICLES over 12,000 kgs gross

Gross Train Weight (kgs)		TYPE OF VEHICLE					
		2 axle tractive/ any semi -trailer	2 axle tractive/ 2+ axle semi -trailer	2 axle tractive/ 3+ axle semi -trailer	3+ axle tractive/ any semi -trailer	3+ axle tractive/ 2+ axle semi -trailer	3+ axle tractive/ 3+ axle semi -trailer
Over	Not Over						
12,000	14,000	470.00	420.00	420.00	420.00	420.00	420.00
14,000	16,000	590.00	440.00	440.00	440.00	440.00	440.00
16,000	18,000	690.00	440.00	440.00	440.00	440.00	440.00
18,000	20,000	810.00	440.00	440.00	440.00	440.00	440.00
20,000	22,000	940.00	550.00	440.00	550.00	440.00	440.00
22,000	23,000	1,000.00	620.00	440.00	620.00	440.00	440.00
23,000	25,000	1,150.00	780.00	440.00	780.00	440.00	440.00
25,000	26,000	1,150.00	870.00	440.00	870.00	440.00	440.00
26,000	28,000	1,150.00	1,090.00	530.00	1,090.00	440.00	440.00
28,000	29,000	1,210.00	1,210.00	720.00	1,210.00	520.00	440.00
29,000	31,000	1,680.00	1,680.00	820.00	1,680.00	640.00	440.00
31,000	33,000	2,450.00	2,450.00	1,050.00	2,450.00	970.00	440.00
33,000	34,000	2,450.00	2,450.00	1,680.00	2,450.00	1,420.00	550.00
34,000	36,000	2,750.00	2,750.00	2,250.00	2,450.00	2,030.00	830.00
36,000	38,000	3,100.00	3,100.00	3,100.00	2,730.00	2,730.00	1,240.00

12. PLATEABLE RIGID GOODS VEHICLES over 12,000 kgs gross

Gross Weight (kgs)		TYPE OF VEHICLE		
		Rigid vehicle with 2 axles	Rigid vehicle with 3 axles	Rigid vehicle with 4 + axles
Over	Not Over			
12,000	13,000	10.00	320.00	320.00
13,000	14,000	570.00	340.00	340.00
14,000	15,000	740.00	340.00	340.00
15,000	17,000	1,130.00	340.00	340.00
17,000	19,000	-	540.00	340.00
19,000	21,000	-	730.00	340.00
21,000	23,000	-	1,000.00	490.00
23,000	24,390	-	1,780.00	-
24,390	26,000	-	-	690.00
26,000	27,000	-	-	1,110.00
27,000	29,000	-	-	1,630.00
29,000	30,490	-	-	2,680.00


13. TRAILER DUTY

Where the drawing vehicle has a plated weight over 12,000 kgs gross AND draws laden plateable trailers over 4,000 kgs gross weight additional trailer duty is payable.

Gross Trailer Weight (kgs)		
Over	Not Over	
4,000	8,000	80.00
8,000	10,000	100.00
10,000	12,000	130.00
12,000	14,000	180.00
14,000	-	355.00

IMPORTANT NOTES

Reduced rates are applicable to Farmers and Showman's Goods Vehicles. Information on those, 6 monthly and all other rates are given on form V149, available from Post Offices and Vehicle Registration Offices.

 The revised rates of duty are shown in the shaded areas.

THE TERM "PLATEABLE" IS NOT APPLICABLE IN NORTHERN IRELAND



MINISTER
FOR ROADS AND TRAFFIC

Peter Lilley Esq MP
Economic Secretary to the
Treasury
Parliament Street
LONDON SW1P 3AG

SECRETARY
27 JAN 1989

My ref
Your ref

MR MICHIE
S/C/PS/IST/PS/STC/PS
SIR P MIDDLETON
MR SCHOLAR MCL
MR GILMOUR PS/STC
MR REVOLTA MC
MR RILEY CALL
MR MACPHERSON
MR FLANNAGAN
MS POLLOCK

72 777 18

MRS CHAPLIN
MR TYRRE
MR JENKINS OPC.

Dear Peter

1989: FINANCE BILL MINOR STARTERS

Thank you for your letters of 8 and 9 November. I am glad you think you will be able to include starters 601 (Trade Licensing), 605 (Recovery Vehicles) and 631 (Update references to registration book). I was particularly pleased that you agreed to find space for the 633 "Sale of Vehicle Registration Marks" - in the Bill.

I have, as you asked, considered again starters 600, 630, 606, 632 and 610. I have concluded that starter 600 (Northern Ireland/GB mutual licensing exemption) can be set aside pending the possible amalgamation of the two Acts and that starter 610 (mine rescue) need not go forward this year.

630 Failure to notify vehicle keeper changes

The Department is under increasing pressure from the police and Courts to improve the accuracy of the DVLC vehicle records. This starter reflected our determination to tighten up the system. The alternative you suggest would itself probably need new legislation.

Rather than press the issue this year, I have asked officials to review the relative merits of these and any other possible measures to tackle the problem. If - as I expect - new legislation of some sort is still needed to maximise the effectiveness of the vehicle register, I would expect to return to this topic with more vigour next year.

606 Dishonoured Cheques

I think the risk of controversy on this one is small and worth taking. The issue has been re-examined in depth since last year. Lawyers now advise the item will be just over a page in length. I would share your concern if matters were as your letter describes, but I can reassure you the proposed penalty could only be imposed by a court following a conviction for the offence of failing to surrender a vehicle excise licence obtained with a dud cheque. We are proposing a stronger penalty for that offence in order to discourage this form of VED evasion further. The amount prescribed is the value of the licence while it was in the offenders possession; whether or how much the vehicle in question was then kept or used on the road is not relevant. The other issues you raise are not unique to this starter. The additional penalties

CONFIDENTIAL

courts are bound to impose on vehicle owners who are convicted and fined for VED evasion under the Vehicles (Excise) Act 1971 are now applied according to the same criteria.

I am sorry if we have been the cause of any misapprehensions about this item. I hope you will agree that the safeguards to which you refer are not appropriate in the light of the explanations I have now given, and that the starter can go forward unamended.

632 Grass Cutting

I am attracted to your proposal for a more fundamental simplification in this area and I agree it would complement our plans for the Hackney class and solve the enforcement and administration problems experienced here and in Customs and Excise. It would mean a sweeping simplification of the rules on use, it would meet my original intention of including local authority and other grass and hedge cutters and would streamline the rebated fuel duty provisions. Some restrictions would, as you say, remain, but none of those are at present causing any problems.

Officials have consulted lawyers, who are satisfied it can be done this year, and without making substantial demands on scarce Bill space. What you suggest would cost a little in fuel duty and VED revenue from the 2,000 vehicles currently outside the £16 tax classes, but we can monitor track costs and ensure the enlarged class covers its costs in VED alone. For this year, to ease the transition to the new unified class for the 470,000 vehicles and to avoid them all re-licensing at once I would leave the VED at £16.

We can then change them into the new class as their present licences expire. The relaxation of the present constraints may awaken hauliers' fears of unfair competition, but I think they can be easily allayed.

V/o - *en*
Pete

PETER BOTTOMLEY