

Tax Information and Impact Note for Heavy Goods Vehicle charging proposals

Who is likely to be affected?

UK operators of heavy goods vehicles of 12 tonnes and over

Foreign operators of heavy goods vehicles of 12 tonnes and over

Potentially, businesses which rely on hauliers e.g. supermarkets, manufacturing

General description of the proposal

All HGVs, domestic and foreign, will be required to pay a tax for the use of the UK road network. Foreign hauliers will be able to purchase a daily, weekly, monthly or annual permit, while UK hauliers will be buy annual or six-monthly permits at the same time and for the same period as they pay vehicle excise duty.

The Government will also come forward with accompanying measures to offset these additional charges on UK hauliers, either through reductions in other taxes, duties or charges that they currently face, or through appropriate spending measures.

Policy objective

The Government is committed to delivering a fairer deal for UK hauliers. At present, UK hauliers have to pay tolls and/or vignettes to use roads in many EU states. Hauliers from other EU states however can use UK roads without having to pay a charge.

Background to this measure

The UK haulage industry have lobbied for some form of HGV Charging for several years on the basis that it already occurs in the majority of EU states.

In May 2010, the Coalition Agreement stated that: "We will work towards the introduction of a new system of HGV road user charging to ensure a fairer arrangement for UK hauliers".

This was further supported by the National Infrastructure Plan which in October 2010 confirmed that "To produce the infrastructure for a green growth, low carbon and competitive transport economy, the Government will...establish a system of lorry road-user charging".

In response, HGV Charging was made a specific part of the Department for Transport's Business Plan. In both the November 2010 and May 2011 versions Priority 4 is "Tackling carbon and congestion on our roads", which includes a commitment to: "Introduce HGV road user charging to ensure a fairer arrangement for UK hauliers".

Detailed proposal

The HGV charge would apply to the whole road network and to both UK and foreign vehicles 12 tonnes and over.

It would consist of a time-based charge of up to £1,000 a year or £10 a day for the heaviest vehicles. UK hauliers would pay the annual or six month charge at the same time as they pay Vehicle Excise Duty. Foreign hauliers would have the option to buy daily, weekly, monthly or annual permits.

Charges are shown below. Charges for rigid vehicles pulling trailers have different charges, set around 30% higher.

VED band	User charge rate: (foreign vehicles only)			User charge rate (foreign and UK vehicles)
	Daily	Weekly	Monthly	Annual
A	£1.70	£4.25	£8.50	£85
B	£2.10	£5.25	£10.50	£105
C	£4.80	£12	£24	£240
D	£7	£17.50	£35	£350
E	£10	£32	£64	£640
F	£10	£40.50	£81	£810
G	£10	£50	£100	£1,000

UK hauliers would begin to pay the charge as they renewed VED from April 2014. Foreign hauliers will start to pay the charge from April 2014, or as soon after this as possible that is consistent with a robust procurement process.

Non-payment of the charge will be a criminal offence, which could result in a fine.

The Government will offset these additional charges on UK hauliers, through reductions in VED and appropriate spending measures. Our estimates show that around 98% of UK-registered HGVs of 12 tonnes and over would lose no more than £50 a year as a result of the proposed user charge, with losses minimised for the remaining 2%. The need to remain within EU rules regarding minimum rates of vehicle tax mean that it will not be possible to ensure that 100% of vehicles are no worse off.

Operative date

- Primary legislation will be necessary before any system of HGV road user charging can be introduced. The Government is introducing a Bill into Parliament in October 2012.
- We are aiming to introduce the charging scheme in April 2014 for UK and foreign hauliers. This would bring the implementation for foreign hauliers forward by almost a year, and we believe that it is not feasible to introduce this scheme any earlier, due to the time required to set up and run the procurement exercise for the new system for collection of the levy from foreign hauliers and then the supplier designing, constructing and testing a new IT and collection systems

(which need to interface with three different agencies) for April 2014. Having this earlier start date does incur some delivery risks. We need to have the right balance between being challenging and appropriate risk management.

Current law

There is no provision for lorry road user charging in UK law at present.

The European Directive 1999/62/EC – the “Eurovignette Directive” requires that any HGV charging scheme must:

- Not discriminate against foreign hauliers;
- Include all HGVs of 12 tonnes and over
- Not apply both a toll (distance based) and a vignette (time based) charge on the same stretch of road, with exceptions relating to tunnels, bridges and congested roads.
- Not charge more than 11 Euros for a daily vignette (although a recent amendment to the Directive allows inflation-uprating of this figure, so it is likely to be 12 Euros for the introduction of charging in the UK)
- Not charge less than 50 times the value of a daily charge for an annual charge.
- Not limit free movement across national borders;
- Not go below stated minima for vehicle tax (in the UK’s case, vehicle excise duty).

The directive has been transposed into the law of England and Wales via The Heavy Goods Vehicles (Charging for the Use of Certain Infrastructure on the Trans-European Road Network) Regulations 2009.

Proposed revisions

The HGV charge will be introduced by primary legislation, creating a new tax.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
0	+20	+20	+20	+20	+20
	<p>These figures are our central estimate of the revenue from this charge. The Exchequer impacts set out above will be subject to scrutiny by the Office for Budget Responsibility.</p> <p>These estimates are comprised of the additional revenue from charging all hauliers (UK and foreign) offset by the cost of reducing VED for UK hauliers.</p> <p>The estimated additional yield does not take into account the additional costs that the Department of Transport will incur as a result of DVLA administering and VOSA/DVA enforcing the charge, and introducing grants for vehicles with reduced pollution certificates.</p>				
Economic impact	<p>We do not anticipate a significant impact to the broader UK economy as the vast majority of UK hauliers will have an unchanged cost burden overall, with exceptions set out in the impact on business section.</p> <p>UK hauliers account for 94% of the vehicle miles carried out by HGVs over 12 tonnes in the UK, although the vehicle miles of road haulage business into and out of the UK is also relevant.</p> <p>There may be a behavioural response from foreign hauliers due to the increase in costs they face; the potential scale of this impact is examined below.</p> <p>The Road Haulage Association estimates the average daily cost of running a 44 tonne HGV (just over the average weight of foreign vehicles visiting the UK) to be around £300. A daily charge of £10 would represent a cost increase of around 3%. We do not believe any solid evidence exists on the price elasticity of foreign haulage in the UK as it is a market with very specific characteristics due to our island nature. We have therefore looked instead at the available evidence on overall freight traffic demand elasticities. Graham and Glaister's 2004 literature review considers 143 price elasticity estimates of the demand for road freight and finds "the majority of estimates fall between -0.5 and -1.3" (p268). It notes that "different elasticities emerge for different commodity groups, for different trip types and for different levels of market coverage. Thus, the specifics of any particular context have an important bearing on the magnitude of estimates". For these purposes none of the elasticities available reflects the specific context of foreign haulage in the UK. No additional evidence emerged during the consultation period.</p> <p>However, to illustrate the impact this behavioural response could have on</p>				

	<p>revenues and foreign haulage we have used the mean elasticity found in this paper of -1.07. This is not directly applicable to the situation we are considering where the required evidence is the cross-elasticity of demand between UK and foreign hauliers but serves to estimate the potential impacts.</p> <p>Using the mean elasticity of -1.07, a 3% increase in price could lead to a decrease in haulage by foreign-registered vehicles in the UK of 3.21%. It would also have an impact on vehicle miles of foreign-registered vehicles on trips into and out of the UK.</p> <p>The reduction in haulage undertaken by foreign companies may be replaced by domestic haulage companies, or alternatively vehicle miles may fall due to changes in the set up of businesses who currently use foreign haulage. Using the elasticity above implies 0.19% of the UK haulage market could be affected given that currently foreign hauliers account for 6% of the vehicle miles carried out by vehicles over 12 tonnes. There would probably be a further benefit to UK hauliers in terms of securing a higher proportion of the road haulage market into and out of the UK.</p> <p>There is also a more recent survey of the literature on the price sensitivity of freight transport in De Jong et al (2010). This survey finds a “best-guess elasticity” (page iv) for vehicle kilometres to vehicle kilometre price of -0.9. This is slightly lower but consistent with the evidence above.</p> <p><u>References:</u></p> <p>Graham and Glaister (2004) <i>Road Traffic Demand Elasticity Estimates: A Review</i> Transport Reviews, Vol 24, No. 3, 261-274.</p> <p>De Jong et al (2010) <i>Price sensitivity of European road freight transport</i>. Significance and CE Delft (http://www.cedelft.eu/publicatie/price_sensitivity_of_road_freight_transport_-_towards_a_better_understanding_of_existing_results/1130?PHPSESSID=8ff7f6829e11fbef7166a8739c14b6e9)</p>
<p>Impact on individuals and households</p>	<p>We do not anticipate a significant impact on UK individuals and households.</p> <p>We would expect any pass-through to goods prices due to increasing costs of foreign haulage to be very low. As detailed in the economic impact section the cost of operating a foreign HGV in the UK is expected to increase by around 3%; and only 6% of the UK haulage market would be affected by this. The UK haulage sector is highly competitive with over 90,000 licensed operators. Hence any pass-through would be significantly lower than the 3% figure and only for those goods taken by foreign hauliers.</p>

<p>Equalities impacts</p>	<p>There is no equality issue raised by this policy. It applies equally to all HGV owners/operators, regardless of their age, disability, gender, gender reassignment, race, religion or belief, or sexual orientation.</p> <p>In compliance with EU law, the HGV charge will not discriminate between UK and foreign hauliers, both of whom will be required to pay the user charge. Notices informing drivers that the charge needs to be paid and instructions on how to do so will be available in a number of relevant EU languages and/or in pictorial form.</p>
<p>Impact on business including third sector</p>	<p>UK haulage operators should benefit from a reduction in foreign haulage operations, as set out in the economic impact section, but we do not have evidence to understand the precise repercussions of this.</p> <p>Around 98% of the current UK HGV vehicle fleet of 12 tonnes and over will pay no more than £50 extra per year, and 94% will pay nothing extra at all. This is in the context of HGV running costs of around £80,000-£100,000 a year.</p> <p><u>This measure is expected to have a negligible impact on wider businesses and civil society organisations.</u></p> <p><u>For UK vehicles, the charge will be paid in a single payment alongside VED, meaning no additional administration costs for businesses.</u></p>
<p>Impact on public sector</p>	<p><u>DfT/DVLA/DVA/VOSA</u></p> <p>We estimate that set up costs would be around £3.0 million to £6.7 million, mostly involving changes to IT systems to administer the charge for UK vehicles and to enforce it at the roadside.</p> <p>We estimate there would be annual administration and enforcement costs of £3.0 million to £4.8 million.</p>
	<p><u>MOJ/Courts Service</u></p> <p>For UK-registered vehicles, payment of the charge will be simultaneous with payment of VED. Levels of VED evasion by HGV keepers are low (0.9%)¹ and we do not expect them to increase as a result of the charge. The number of VED evasion cases coming to court will not be affected by the charge.</p> <p>Additional cases involving drivers of foreign-registered vehicles may end up in the magistrates court. We anticipate, however, that any increase in business for the courts will be small. The evidence of other EU states running similar schemes is that the vast majority of hauliers pay the charge and that those that are caught evading it generally pay the charge and a penalty without going to court. Evidence from the UK's graduated fixed penalty and deposit scheme, in operation since May 2009, also shows that</p>

¹ Rate of unlicensed goods vehicles in Great Britain traffic in 2009: *Vehicle Excise Duty Evasion, 2010*

	<p>the number of foreign-based drivers preferring to go to court rather than pay an on-the-spot deposit is very small (less than ten cases in two years).</p>
Other impacts	<p>Sustainable impact/Carbon assessment</p> <p>Our analysis suggests that this policy is unlikely to affect carbon or other vehicle emissions. However we will explore the possibility of introducing differential charges as soon as it becomes practical to do so.</p> <p>Health impact</p> <p>The two major ways in which HGVs can have a negative effect on health are asthma etc caused by emissions, and accidents.</p> <p>As stated above, the policy as it currently stands is unlikely to have an impact on emissions.</p> <p>As it doesn't aim to reduce the number of HGVs on the road, it is unlikely to have a dramatic effect on the number of accidents. However, the accident rate for foreign HGVs is higher than that of domestic HGVs.</p> <p>This policy may increase the number of foreign HGVs being stopped by VOSA, (in order to see whether the charge has been paid) which could in turn lead to more potentially unsafe HGVs being detected and made to rectify defects before they can cause harm.</p>
	<p>The charge being introduced from 2014 will not be varied based on the environmental performance of the vehicle. However we are committed to looking into the practicalities of applying such a differential after the charging regime comes into force in 2014. This could lead to additional benefits in terms of improved air quality and public health. We will be actively examining over the coming months a number of considerations relevant to the practicality of this, including the full range of costs and benefits involved, the relationship with the existing EU directive and the scope for securing EU agreement for amending it.</p>

Monitoring and evaluation

We will monitor the HGV Charging Scheme and evaluate its results, once the system has been in operation for at least twelve months. Evaluation is expected to look at how effective the administration of the charge is, in terms of running costs compared to pre-launch estimates, compliance rates achieved for foreign and UK vehicles, and the effectiveness of enforcement strategies. We will also evaluate methodologies that could be used to estimate the impact on the international road haulage market into and out of the UK, although recognising that identifying such impacts might prove difficult.

Further advice

If you have any questions about this change, please contact Peter Steele on 020 7421 4271 (hgvcharging@dft.gsi.gov.uk)