

## Treasury could use VAT windfall to ease pressure on diesel drivers

The Chancellor, who enjoys an unexpected VAT windfall from diesel remaining four pence per litre more expensive than petrol, has scope to ease the financial pressures on diesel car owners and business, says The AA Motoring Trust. Last year, the difference generated an extra 29.4 million in VAT from private diesel car owners\*.

A review of the extra cost of driving a diesel would allow the Treasury to help car owners who pay more to drive these cleaner vehicles. Two options may be: reducing excise duty on diesel by at least half a penny per litre or removing the 10 surcharge on road tax for diesel cars\*\*.

Diesel cars generate up to 20 per cent less carbon dioxide through greater fuel efficiency but cost 1000-1500 more to buy than their petrol equivalents. The rise in the diesel-petrol price differential, from less than two pence in 2004 to four pence last year, added more than 5000 miles to the distance diesel car owners need to travel before they recoup their start-up cost. This adds a further 120.

The AA Trusts February Fuel Price Report shows that diesel, now averaging 94.1 pence per litre, continues last years trend of generating an extra 0.6 pence VAT per litre compared to petrol, which now averages 90.0 pence per litre.

From 2002 to 2004, diesel averaged less than two pence more expensive than petrol, growing to four pence throughout last year. In the summers of 2000 and 2001, the price of diesel equalled or was cheaper than petrol, becoming more expensive in the winter when the demand for heating oils grows.

"This higher price differential, created by shortages in diesel-refining capacity\*\*\*, is an unexpected VAT windfall for the Treasury," says Ruth Bridger, petrol price analyst for The AA Motoring Trust.

"The prediction that diesel-refining capacity in Europe will fall short by 50 million tonnes per year by 2015 is not the Governments fault, but is a serious problem. The Treasury simply enjoys the VAT benefit of the resulting pressure on prices.

"However, the Chancellor can help the more environmentally-friendly switch to diesel, perhaps by reducing the level of duty by around half a penny per litre or removing the 10 extra road tax paid by diesel car owners. A half-penny reduction would also reduce costs to the freight haulage industry by 70 million."

The AA Motoring Trust advises car owners looking to change to diesel-fuelled vehicles to calculate and compare motoring costs before making the switch. The typical 1000-1500 extra cost of buying a diesel car means that owners need to drive more than 30,000 miles before they recoup this additional start-up cost and enjoy savings from better fuel consumption.

NOTES TO EDITORS: \*The average mileage of a typical privately-owned car is 9000 miles. Diesel cars average 40 miles per gallon, according to Department for Transport figures, consuming 225 gallons or 1023 litres of diesel per year.

In 2004, when diesel averaged 1.58 pence per litre more expensive than petrol, and the average VAT was 0.24 pence per litre, a typical diesel driver would have contributed an extra 2.45 per year in VAT to the Treasury compared to petrol.

In 2005, when diesel averaged 4.05 pence per litre more expensive than petrol, and the average VAT was 0.60 pence per litre, a typical diesel driver would have contributed an extra 6.14 per year in VAT to the Treasury compared to petrol.

In 2003-4, there were 6,637,500 diesel private cars and light goods vehicles licensed in the UK, generating an extra 16,261,875 in VAT from the 1.58 pence per litre additional cost compared to petrol.

In 2004-5, there were 7,437,900 diesel private and light goods vehicles licensed in the UK, generating an extra 45,668,706 in VAT from the 4.05 pence per litre additional cost compared to petrol.

\*\*In the 1999 Budget, the Chancellor announced a system of graduated Vehicle Excise Duty based primarily on carbon dioxide emissions, to be introduced on 1 March 2001. In the 2000 Budget, the Chancellor announced "a small supplement on diesel cars to reflect their higher emissions of particulates and other local air pollutants".

Particulate limits:

Euro III (2001) diesel = 0.05 g/km

Euro IV (2005) diesel = 0.025 g/km

Nox limits:

Euro III (2001) diesel = 0.5 g/km

Euro IV (2005) diesel = 0.25 g/km

\*\*\* Wood Mackenzie report 2005

[The AA Motoring Trusts Fuel Price Report for February 2006](#)

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