

1 JULY 2008

PARLIAMENTARY BRIEFING

THE FINANCE BILL 2008

Fuel duty

In the March Budget, in response to record high oil prices and subsequent record rises in fuel prices, the Chancellor agreed to defer the planned 2p per litre increase in fuel duties.

Since then the AA has questioned 17,500 motorists in its AA Populus panel to ascertain how the high cost of fuel is affecting them. The polling took place between 14 March and 9 April. The results reflect the AA's concerns about the volatility of the oil price, its impact on fuel prices at the pump and the onward impact this has on households and the economy at large. The price of road fuels has continued to escalate since then and the diesel pump price is now about 12 pence per litre more.

The AA Populus polling found:

- 64% of members had made a conscious decision to drive less by car or had cut back on other areas of spending, or had done both.
- 37% of the entire sample had cut back on car journeys
- 51% of over 65s had cut back on car journeys
- 17% of women had cut back on weekly shopping

At the start of 2007 oil was just over \$50 a barrel and it has now reached almost \$140. The AA believes that the decision taken in the March 2008 budget, to increase fuel duty in October, should now be abandoned as all indications are that prices will remain high.

Vehicle fuel and transport costs form the biggest part of household budgets. As fuel cost is the largest element, people and business are feeling the pain of high prices and are looking for some stability in an increasingly hostile domestic economic climate.

Fuel price instability is damaging to people and the economy and whilst this is largely influenced by the market the AA believes that the Government can do more to help people and business weather the financial damage and uncertainty high prices cause.

The AA welcomes amendment NC 8 (27 June 2008) to the Finance Bill which will go some way to provide a 'fuel duty formula' which can help ensure that public finances, households and business can be protected from unwelcome fuel price fluctuations. It would introduce greater transparency and more stability.

We remain concerned about discrepancies in fuel pricing at the pumps and the speed at which price increases occur at the pumps. Lack of refining capacity in the UK also

seems to be affecting the price of diesel. It is perhaps time for an oil regulator to be set up in the UK to safeguard the interests of business, consumers and citizens.

Mileage rates

The AA also remains concerned about the impact high fuel prices have on the HMRC Approved Mileage Rate. At its current level the 40p per mile allowance is insufficient to cover motoring costs for many users and this should therefore be increased in line with the escalating price of fuel, as has happened in the US over the last three years.

Vehicle Excise Duty

The AA has been generally supportive of a graduated VED system aimed at incentivising the purchase of cleaner more fuel efficient cars. However we have a major concern about the confusion and lack of clear information which has been created by proposed VED changes resulting from the last budget.

Up until budget 2008 VED changes aimed at larger vehicles had not been retrospective, for example, when band G was introduced this was only for new cars from 2006.

Some AA members have expressed concern that vehicles they purchased before these new VED changes were published will be hit with big VED increases over the next two years. The purpose of graduated VED was to send out a message to motorists to help influence their vehicle purchase. A “retrospective” tax does not send out such a signal but hits many motorists who cannot afford to change their vehicles. The proposal for retrospective VED should be scrapped.

UK car buyers must have clear unambiguous information about future VED policy (and rates) at the earliest opportunity so they can make sensible purchase decisions. The recent budget proposals have caused significant confusion which must be resolved at the earliest opportunity. Our concern is that people may be buying cars today that they may not know will fall into much higher bands in 2009 and 2010.

For further information [contact AA public Affairs](#)