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CABINET

FUTURE OF VEHICLE EXCISE DUTY

Memorandum by the Lord President of the Council

1. The future of Vehicle Excise Duty (VED) is vitally bound up with the issues discussed in my paper C(79) 51 on further action to reduce the size and cost of the Civil Service. In that paper I say that the outcome so far of our attempts to make reductions is very disappointing. We need to secure further reductions wherever possible. VED is widely thought of as a prime example of unnecessary bureaucracy.
2. Abolition would enable a saving to be made in the short-term of up to 2,600 staff or £15 million a year. This is 1,450 staff and £8 million a year more than the savings resulting from changes in registration and duty collection procedures which the Minister of Transport has offered to me. In addition to these major short-term savings, abolition would open the way in the longer term to further substantial savings by linking registration to insurance. That is just the kind of imaginative possibility for reducing the bureaucracy we should be ready and willing to explore.
3. I hope that these administrative benefits will be given full consideration in arriving at our decision. The extra increase in the price of petrol needed to compensate for the loss of revenue from VED is now in relative terms less significant than it was a few months ago. And the Report of the Official Working Group on VED attached to the Chancellor's paper (C(79) 50) states that abolition would have no appreciable effects upon the motor industry. That Report also makes it clear that for motorists generally there should be a minimal, if any, additional cost and in rural areas the consequences for motorists may be as little as plus or minus £2.50 a year, even taking no account of the increased incentive for fuel economy. I appreciate the Chancellor's concern lest abolition reduce the scope for fiscal manoeuvre. But this tax is widely regarded as unsatisfactory. Evasion is high and the change would fit well with our philosophy that people should have the maximum possible degree of choice as to how they spend their money.
4. These seem to me to add up to weighty arguments in favour of abolishing the tax.

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Civil Service Department

29 October 1979