

BUDGET CONFIDENTIAL



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cc PS/Economic Secretary —
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MOTABILITY: POSSIBLE BUDGET STARTER

1. Your note of 25 February asks for a quick note on the case for giving car tax relief on cars supplied to Motability for leasing. This matter has been addressed in depth on two previous occasions in connection with possible Budget "lollipops" in 1984 and 1987. On both occasions there was a strong recommendation against granting such relief, and the arguments leading to that conclusion have not changed.
2. The proposal was also discussed in detail this year by the Economic Secretary when he met Sir Jeffrey Sterling (Chairman of Motability) on 12 February. Briefly, the arguments against granting relief are:
 - (a) **Revenue cost.** A loss of between £7 and £17 million has been estimated, with no recovery of car tax where the vehicles are sold after the period of leasing or diverted to a non-entitled use.
 - (b) **Control problems.** Scope for abuse is significant, with attendant administrative and control problems in an area which would be very sensitive to monitor.

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- (c) Repercussions. It would be difficult to resist similar applications from other bodies. The proposal would increase the gap between leasing and hire purchase schemes, leading to pressure further to extend relief and increase revenue cost/control problems.
- (d) Ancillary costs. There would be an increase in demand for vehicles which would raise the level of DHSS funding required to cover Motability's administrative costs.
- (e) Operation of Car Tax. Car tax is a single-stage tax and there is no mechanism for recouping any part of the tax relieved if the vehicle is sold after a period of leasing and transferred to a non-entitled use. In this, car tax differs from VAT which is a multi-stage tax allowing recovery of VAT on second-hand selling prices. This conceptual difference makes it difficult to achieve parallel tax treatment.
- (f) Other reliefs. Relief is already available for substantial adaptations to vehicles. The proposed relief would benefit only car users - there would be pressure to give relief to general purpose goods used by others - eg the house bound, disabled.
- (g) General. Many of the leased vehicles proposed for relief are not adapted for disabled persons. They are used where the disabled person is a passenger only; this increases the risk of diversion to non-entitled use.

3. To give more detailed background, and greater depth to the arguments involved, I attach copies of the briefing notes provided in 1984 and 1987. I attach also a copy of the full briefing supplied to the Economic Secretary for his February meeting with Motability and a copy of the note of that meeting.

Bryce Knox

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