

Summary: Intervention & Options

Department /Agency: HM Revenue and Customs	Title: Impact Assessment of the implementation of the Energy Products Directive on private pleasure flying	
Stage: Final Proposal	Version: 1	Date: 14 February 2008
Related Publications: Impact Assessment of the implementation of the Energy Products Directive on private pleasure boats.		

Available to view or download at:

<http://www.hmrc.gov.uk>

Contact for enquiries: Catherine Mawer

Telephone: 0207 147 0655

What is the problem under consideration? Why is government intervention necessary?

The derogation from the European Energy Products Directive (EPD) which allowed the UK to charge a reduced rate of duty on aviation gasoline (Avgas) and to exempt aviation turbine fuel (Avtur) used in private pleasure-flying expired on the 31 December 2006. The UK is in breach of European legislation and as such is liable to infraction proceedings by the European Commission. The Government announced at Budget 2007 that the changes needed to implement the requirements of the EPD would be introduced with effect from 1 November 2008.

What are the policy objectives and the intended effects?

To implement the terms of the EPD by making fuel used for private pleasure-flying liable to excise duty while ensuring that the impact of new regimes and procedures have the minimum impact on business.

What policy options have been considered? Please justify any preferred option.

Following a formal consultation on options for change which was held 1 August - 31 October 2007, the final proposals are:

Avtur: Purchaser/user liable for duty payment. Supplier obliged to draw attention to end-use liability and if the purchaser intends to use fuel for private pleasure-flying he will be asked to make a written declaration to that effect which the supplier will retain.

Avgas: New free-standing rate of duty on Avgas for both commercial and pleasure use; procedure mirrors the current situation.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? Compliance cost will be reviewed after 3 years.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister: Angela Eagle

.....Date: 20 February 2008

Summary: Analysis & Evidence

Policy Option: a)	Description: the imposition of kerosene duty on the use of Avtur for private pleasure-flying
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' HMRC - One-off set up costs and/or system changes HMRC - Approx £30,000 to £35,000 ongoing costs each year Individual tax payers - Approx £10,000 to £30,000 compliance costs each year				
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Other key non-monetised costs by 'main affected groups' Small costs for suppliers, purchasers and users of Avtur in terms of awareness of the changes. Possible small effect on competition between fuel suppliers from a reduction in demand for Avtur for private pleasure flying but not expected to be significant. HMRC's extra enforcement costs have not been estimated.						

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups'				
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Other key non-monetised benefits by 'main affected groups' Avoids infraction proceedings by the European Commission. There will be a small impact on carbon emissions from a reduction in demand for Avtur for private pleasure flying and a new duty rate for Avgas but this is not expected to be significant or quantifiable.						

Key Assumptions/Sensitivities/Risks Estimates of compliance costs are highly dependant on the number of aircraft and the time taken to keep records and submit duty returns and payments for individual aircraft owners. Central estimate of roughly 500 tax payers. Exchequer impact is expected to be negligible.

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?	UK			
On what date will the policy be implemented?	1 November 2008			
Which organisation(s) will enforce the policy?	HMRC			
What is the total annual cost of enforcement for these organisations?	£ Negligible			
Does enforcement comply with Hampton principles?	Yes/No			
Will implementation go beyond minimum EU requirements?	Yes			
What is the value of the proposed offsetting measure per year?	£			
What is the value of changes in greenhouse gas emissions?	£ Negligible			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro ~ £20-40	Small ~ £20-40	Medium ~ £20-40	Large ~ £20-40
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of	£ Negligible	Decrease of	£ 0
		Net Impact	£ Negligible

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Evidence Base (for summary sheets)

Background

1. Until 31 December 2006, the UK held a derogation from the European Energy Products Directive (2003/96) which allowed the UK to charge a reduced rate of duty on Avgas and to exempt Avtur used for private pleasure flying. The UK derogations had in fact been time-limited since the predecessor to the EPD was agreed and signed in 1992. In 2001, the Government negotiated an extension to the derogation to 31 December 2006. Although the UK submitted a request in October 2006 for the derogation to be renewed again the European Commission did not accept the UK's arguments and the derogation expired on the 31 December 2006.
2. At the Budget 2007 the Government made a commitment to introduce the changes needed to implement the requirements of the EPD with effect from 1 November 2008. The Government also made a commitment to consult formally on the new regimes.
3. Two fuels are used in aviation, Avtur and Avgas. Avtur is mainly used in commercial jet and turbo-prop aircraft, and private pleasure use is considered to be negligible. In its review of the derogations in June 2006 (COM(2006)342), the Commission itself acknowledged this by stating that small light aircraft used in pleasure-flying used a different fuel from jets or commercial aircrafts. Avgas is used in smaller piston-engined aircraft, which are used for both commercial and business purposes as well as for pleasure-flying.
4. There are no official statistics concerning the consumption of either Avgas or Avtur for private pleasure-flying and so it is extremely difficult to accurately assess the private use of either fuel. There is no reason or obligation for the industry to keep any such records, but estimates are that private pleasure use of Avtur is a fraction of one per cent of total use (total Avtur sales in 2005 – the latest year for which we have figures – were 17.5 billion litres), whereas private pleasure use of Avgas is estimated at about 20 per cent of total use (total Avgas sales in 2006 were 31 million litres). The General Aviation sector is the main consumer of Avgas, although General Aviation activities also use Avtur. The General Aviation sector is diverse, covering all flying other than that performed by the major airlines and Armed Services, and includes business aviation, air taxis, flying in support of the emergency services, air ambulances, training for professional and private pilots, aerial photography and surveying.
5. The options which were the subject of the consultation exercise were developed taking into account the views of a number of representatives from the aviation sector, including The British Business and General Aviation Association, the Aircraft Owners' and Pilots' Association, the Popular Flying Association and the British Helicopter Advisory Board. Other Government Departments, including the Department for Transport, were also consulted. The following final proposals are now made having taken into account the results of that consultation exercise.

Avtur

Purchaser/user liable for the payment of the duty

6. All Avtur is currently exempt from duty by virtue of being fully rebated under the Hydrocarbon Oil Duties Act 1979 (HODA) section 11(1)(c). Avtur will remain fully rebated but private pleasure use of Avtur will no longer benefit from the rebate and will be liable to the full rate of duty for kerosene, currently 56.94 pence per litre.
7. The responsibility for paying the duty due will lie with the purchaser and/or the user of the fuel who will be required to make a declaration and pay duty to HMRC if the fuel is used for private pleasure-flying purposes.

Compliance costs for individuals/businesses

8. The following obligations will be placed on individuals who use Avtur for private pleasure-flying who will be required to make a tax return to HMRC and pay duty:

- An obligation to keep records of fuel purchased; and
- An obligation to submit a tax return.

The following ongoing compliance costs have been estimated (central estimate):

Rate of compliance assumed	100%
Returns each year	1
Hours per return *	2
Cost per hour spent **	£20
Total individuals affected ***	500
Total cost each year	£20,000

* One hour each year for record keeping and one hour each year for submitting the return

** Hourly wage rate based on HMRC's admin burdens database

*** Estimate based on a 2006 civil aviation authority survey of general aviation

9. However, since the estimate is uncertain it is more appropriate to present a range of compliance costs of between £10,000 and £30,000 which could result from varying assumptions such as the length of time spent completing annual returns, the numbers affected or the average wage rate.

10. Registered Dealers in Controlled Oils (RDCOs) have a duty of care when selling or delivering Avtur to ensure that they only make supplies to customers who have a legitimate use for the oil. This will be extended so that if the RDCO thinks that the fuel might be used for pleasure-flying, he will, under his general duty of care, draw attention to the purchaser of his obligation to contact HMRC and pay the duty due. The RDCO will be required to note his records accordingly. If the purchaser intends to use the fuel for private pleasure-flying, the RDCO will ask him to make a declaration to that effect which the RDCO will retain.

11. There will be a small increased compliance burden on RDCOs familiarising themselves with the changes, informing the purchaser of the duty liability and noting records if they think they might be supplying Avtur for private pleasure-flying and retaining the written declarations.

HMRC costs

12. There will be:

- one-off administration costs for HMRC, including set up costs and/or system changes;
- ongoing costs for HMRC in processing tax returns, estimated at roughly £30,000 to £35,000 a year;
- assurance costs for HMRC in following up sales of possible private-pleasure use fuel as noted in RDCOs' records to ensure that duty has been paid; and
- some legislative changes will be required regarding the RDCOs' obligations and concerning the payment scheme for the purchaser/user.

Competition assessment

13. An increase in the price of Avtur through taxation is likely to reduce the demand from owners/users of private pleasure aircraft. There may be a small knock-on effect on suppliers but this is unlikely to be significant since Avtur is a widely available fuel and this should not

directly limit the number or range of suppliers (the vast majority of Avtur is used by commercial aircraft).

14. It is also unlikely that consumers will switch to Avgas due to the cost of converting aircraft engines. More generally, there are unlikely to be adverse competition effects on the sector in terms of reducing the ability of or incentives for suppliers to compete vigorously.

Exchequer and carbon impacts

15. The revenue and carbon impacts of the change are likely to be negligible since the use of Avtur for private pleasure flying is considered to be very small – estimated at a fraction of one per cent of total Avtur use.

Avgas

New separate duty rate for Avgas

16. Avgas is currently liable to a reduced rate of duty whether or not it is used for commercial or private use. The duty rate is set at half of the leaded petrol rate (HODA section 6(3)).

17. Under Article 5 of the EPD, a different duty rate may be introduced for fuel on the basis of product quality as long as it is above the minimum rates laid down in the Directive.

18. Avgas is a significantly different product to leaded petrol. The civil aviation authority only permits the use of road fuel in aviation engines in specific circumstances and prohibits its use in many aircraft engines for safety reasons, hence the higher specification of Avgas. It is tightly controlled during production, and requires specific transport and storage arrangements by oil companies and aerodrome managers for safety reasons. The reasons for which Avgas can be considered to be a different product from leaded petrol include that it has a more complex and more expensive distillation process than for other fuels with specific requirements to meet the special safety demands of aviation; which means that it cannot legally be used as road fuel.

19. A new fiscal definition for Avgas with a new duty rate, respecting the minimum rates permitted under the Directive, will be introduced in HODA. The new rate will apply to all Avgas irrespective of whether it is used for commercial, business or private purposes, in the same way that the current reduced rate is applied.

20. There are a number of advantages to this solution:

- No change to current procedures – no burdens on industry and no effect on supply chains;
- No additional administrative costs for HMRC;
- Minor legislative changes only required; and
- No need to distinguish between commercial and private pleasure use, all Avgas charged at the new rate.

Specific Impact Tests

21. There are no compliance cost impacts from this option on individuals or businesses since it represents the status quo. There may be small revenue and/or carbon impacts to the extent that the new duty rate for Avgas differs from the existing rate.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	Yes	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Annexes

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