

Title: Abolition of the Tax Disc IA No: DfT00289 Lead department or agency: Driver and Vehicle Licensing Agency (DVLA) Other departments or agencies: Department for Transport (DfT) & Her Majesty's Treasury (HMT)	Impact Assessment (IA)		
	Date: 22/05/2014		
	Stage: Enactment		
	Source of intervention: Domestic		
	Type of measure: Secondary legislation		
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Summary: Intervention and Options	RPC Opinion: EANCB Validated
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Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Two-Out? Measure qualifies as
£228.59m	£73.53 m	-£6.72 m	Yes OUT

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

The display of a tax disc was a quick and transparent way of showing that a vehicle was 'taxed'. However, with cameras and on-line links, the DVLA now uses the vehicle record as an instant check of a vehicle's licensing status without necessarily having to sight it on the road. Since 2004, the DVLA has identified untaxed vehicles through a monthly scan of the record, so the display of a tax disc had become less relevant and placed unnecessary burdens on motorists and businesses. In his 2013 Autumn Statement, the Chancellor announced the abolition of the disc from October 2014.

What are the policy objectives and the intended effects?

The policy objective was to remove the unnecessary administrative burden associated with the issue and distribution of discs. This is intended to reduce costs for motorists, for businesses and the DVLA without provoking an increase in the level of Vehicle Excise Duty (VED) evasion.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

There were two options under consideration – to abolish the tax disc or to do nothing.

Doing nothing would have meant the continued imposition of unnecessary costs on businesses, motorists and DVLA.

The preferred option has been introduced – the tax disc has been abolished. This has reduced those costs and facilitated the introduction of further efficiencies, such as direct debit payments and the issue of automatic refunds.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: Month/Year					
Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A	Non-traded: N/A	

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) that the benefits justify the costs.

Signed by the responsible Minister: Claire Perry Date: 03/09/2014

Summary: Analysis & Evidence

Policy Option 1

Description: **Abolition of the Tax Disc**

FULL ECONOMIC ASSESSMENT

Price Base Year 2014	PV Base Year 2014	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 228.15	High: 229.09	Best Estimate: 228.59

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	5.7	0.4	9.0
High	5.7	0.5	10.0
Best Estimate	5.7	0.5	9.5

Description and scale of key monetised costs by 'main affected groups'

In total there are £5.7m of one off costs. These are made up of £4m to DVLA to update IT systems and to cover Post Office Limited's (POL's) unanticipated costs relating to updating their IT systems, legal fees, staff training and other familiarisation requirements; £1.7m of familiarisation costs to the general public and business to learn that the paper tax disc has been abolished. There are also small annual costs to the general public and business to familiarise themselves with the new tax refund process.

Other key non-monetised costs by 'main affected groups'

Government revenue could be affected if abolition leads to an increase in VED evasion. However, there is a high degree of confidence that there are sufficient measures in place to mitigate this risk.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0.0	28.2	238.1
High	0.0	28.2	238.1
Best Estimate	0.0	28.2	238.1

Description and scale of key monetised benefits by 'main affected groups'

Reduced costs for DVLA (£13.8m), British Vehicle Rental and Leasing Association (BVRLA) members (£7.5m), other businesses (£1.17m) and the general public (£5.36m)

Other key non-monetised benefits by 'main affected groups'

Potential for improved accuracy of the vehicle register and greater take up of Electronic Vehicle Licensing (EVL). Introduction of greater efficiencies through automatic refund payments and direct debit licensing. No vehicle 'down time' waiting for a disc.

Key assumptions/sensitivities/risks

Discount rate

3.5

1- That the IA has made a reasonably accurate estimate of the familiarisation costs that will be incurred by business in 2014/15 (and for future years too where tax refunds are concerned). Familiarisation costs have been estimated on the assumption that the vehicle population will remain constant. Current estimates show that a significant increase is not expected. 2- That the current enforcement regime will be sufficiently robust to stop a rise in VED evasion.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: 0.0	Benefits: 6.7	Net: 6.7	Yes	OUT

Evidence Base (for summary sheets)

The main function of the DVLA is the collection of VED and the maintenance of the driver and vehicle registers. Prior to their abolition, DVLA issued about 45 million tax discs each year. Tax discs for vehicles were introduced in 1921 as a visual demonstration of the payment of VED. They helped the police, traffic wardens and members of the public to identify untaxed vehicles, which have always been considered to be more likely to be uninsured or badly maintained.

However, there is now an increased reliance on the electronic vehicle keeper record as proof of payment of vehicle tax. In particular, since the introduction of Continuous Registration (CR) in 2004, the DVLA runs a monthly scan of the vehicle record to identify untaxed vehicles that have not been declared off-road. It is a civil offence to be the registered keeper of an un-taxed vehicle, which has not been declared as kept off road. This results in the issue of a Penalty Notice requiring payment of an £80 penalty (Reduced to £40 if paid within 28 days). The Notice is sent six weeks after the tax has expired.

Enforcement from the record has helped to reduce VED evasion from 1.5% in 2007 to 0.6% in 2013.

A key aspect of the current enforcement regime is the use of Automatic Number Plate Recognition (ANPR) cameras. The DVLA operates mobile ANPR cameras and fixed cameras at locations throughout the UK to detect untaxed vehicles. These cameras are type approved to support DVLA's enforcement process and, if necessary, the evidence gathered can be used for a prosecution through the courts. The police also use ANPR cameras to detect untaxed vehicles.

Accessing current vehicle information from the roadside has meant that enforcement officers can access vehicle tax information instantly, without the need to inspect a tax disc. Whereas the sighting of unlicensed vehicles by the police and traffic wardens had previously been the cornerstone of VED enforcement, these reports had become increasingly insignificant.

Problem Under Consideration and Rationale for Intervention

The tax disc had become a relatively unimportant feature of the vehicle licensing process. Its abolition has removed an unnecessary burden and has also provided an opportunity to introduce processes, such as automatic refunds and direct debit payments, which will deliver further savings to taxpayers and businesses, and reduce DVLA costs.

Consultation

In December 2012, DfT launched a public consultation "Motoring Services Strategy", seeking views on ways to reduce the burden of motoring paperwork. This included the proposal to abolish the paper tax disc. The formal consultation closed in March 2013, and there was only one dissenting voice amongst the relatively few people who actually commented on the tax disc proposal – a motorist who considered that the lack of a disc would make it difficult to identify uninsured vehicles. A few people made similar comments in other on-line engagement exercises, regarding VED evasion and the traditional checks of a vehicle's MoT and insurance status. However, the Agency is confident that enforcement through database checks and vehicle recognition cameras will be equally effective.

The BVRLA represents most of the companies involved in vehicle leasing and rental. BVRLA members control about 2 million fleet vehicles, 95% of the sector. The BVRLA estimated that abolishing the tax disc would reduce their members' administration costs by £7.5m pa. This

relates to the staff and postage costs incurred in sending tax disc to customers, applying for duplicate discs and making applications for refunds.

The Chancellor announced in his Autumn Statement in December 2013 that the Government would legislate in Finance Bill 2014 to abolish the requirement to display a paper disc on a vehicle windscreen from 1 October 2014.

Policy objective

The policy objective was to remove an unnecessary burden on the motor industry and the public and to reduce DVLA administration costs.

Legislation

Changes to primary legislation to remove the requirement to display a tax disc were introduced via the Finance Act 2014. The required changes to secondary legislation were made in time for abolition, which came into effect on 1 October 2014.

Description of options considered

There were two options under consideration – to abolish the tax disc or to do nothing.

Policy Option 0: Do Nothing

Retaining the requirement for the display of tax discs, would have meant the continued production and distribution of 45 million discs each year, with diminishing purpose, and the continued imposition of unnecessary costs on businesses, motorists and the DVLA.¹

Policy Option 1: Abolition of the Tax Disc

Abolishing the tax disc has reduced costs for business, motorists and the taxpayer, and has facilitated the introduction of further efficiencies, such as direct debit payments and the issue of automatic refunds. Initially, the benefits of the new processes will be mitigated to some extent by the need for businesses and motorists to familiarise themselves with the changes.

The registered keeper must notify the DVLA if their vehicle is stolen, destroyed, notified off-road, sold/disposed or exported. These requirements remain unchanged, but prior to 1 October 2014 the registered keeper also needed to make a separate application to claim a refund of any outstanding duty. Any refunds will now be paid automatically to the disposing keeper. The Agency has issued numerous communications publicising the new rules, and advice is also available on Gov.UK. All vehicle excise duty renewal reminders issued since September last year contained information explaining the changes. Customer insight research showed that over 90% of people were aware that the tax disc was being abolished at the time the changes came into effect. However, it is inevitable that the message will not reach everybody and some customers will have to look up the guidance. Members of the public will look up the new rules as and when they need to but businesses, where the refund process is an integral part of their daily activity, will have had to spend some time, albeit probably not very long, to bring themselves up to speed.

¹ Note there is considerable uncertainty about trends in vehicle ownership at the moment. Given this uncertainty we assume that vehicle numbers remain at the same level in the future now. This means that the number of tax discs should remain the same under Option 0.

Abolishing the tax disc is expected to realise annual benefits of nearly £28m to DVLA (£13.8m); BVRLA members (£7.5m); other businesses (£1.17m) and the general public (£5.36m). These benefits will be mitigated by:

- One-off implementation costs of around £4m to DVLA
- One off familiarisation costs of £1.7m to the general public and business from learning about the abolition of the tax disc;
- Small annual costs to the general public and business of £500k from having to familiarise themselves with the new tax refund process when they need to get a tax refund See tables 5 and 7).

Monetised and non-monetised costs and benefits

Costs and benefits are appraised over a 10 year period. Because the disc was abolished on 1 October 2014, the costs shown below cover 11 financial years, including the last 6 months of 2014-15 and the first 6 months of 2024-25).

Monetised Benefits

Government – An initial assessment of the costs and financial benefits is shown in Table 1.

DVLA benefits total £13.8m per annum. These are broken down into the following elements:

- Disc printing and storage savings = £1.3m pa as a result of no longer having to print or store discs;
- Mailing savings = £7.9m pa. These arise from no longer having to mail over 31m tax discs (31.445m) at an average cost of 25.1p;
- Staff savings = £1.2m pa from not having to process tax disc refunds and not having to answer as many calls about lost/missing discs;
- £3.4m savings from no longer having to pay POL for staff to manually complete and issue tax discs at PO branches.

Table 1: DVLA benefit (£m, 2014 prices)

Oct 2014 - March 2015	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	April 2024- Sep 2024
6.9	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.8	6.9

Business and Civil Society Organisations

A) Fleet Companies

BVRLA is the main representative of the fleet industry. Based on BVRLA figures we estimate that abolition of the disc will benefit fleet businesses by £7.5 million pa.² The benefit comprises the following elements:

- Avoiding postage costs for having to send tax discs to customers;

² The original submission that BVRLA made to DVLA for Budget 2013 estimated benefits to the fleet industry of £3.5m from savings on reposting of the tax disc to customers and drivers, obtaining duplicate tax discs, returning the tax discs for a refund and staff costs. We have done further work with BVRLA to break down the costs into postage and staff for reposting tax discs to customers, returning the tax disc for a refund and obtaining a duplicate tax disc for those lost in the post. These more detailed estimates indicate that costs are approximately twice as high as initially thought. We have worked intensively with BVRLA to estimate these costs and both BVRLA and DVLA have agreed them.

- Not having to return the disc to DVLA to get a refund when a vehicle is sold or otherwise disposed;
- Not having to obtain duplicate tax discs for tax discs lost in the post – this includes re-ordering them from DVLA, paying for the duplicate disc and reposting the tax disc to clients.

The savings, based on BVRLA estimates, for the Association’s members are set out in table 2 below. They come from reduced postage costs, staff not having to complete forms and write letters and not having to pay fees to replace lost discs. Wage costs are based on estimates of the median hourly wage for distribution and transport clerks from the Annual Survey of Hours and Earnings (2013) uplifted for employer ‘on’ costs and uprated to 2014 prices. We assume that for future years, the costs avoided by business in each of the four categories in table 2 remain constant.

Table 2: Costs avoided by fleet companies as a result of the abolition of the VED tax disc each year (£s, 2014 prices)

Activity	Cost of Activity	Number of Vehicles	Benefit to BVRLA members
1. Re-posting tax disc to customers	BVRLA indicate that 1,000,000 transactions will be affected.	1,000,000	1,990,786
Postage and stationery	£0.80		800,000
Staff - completion of letter	5 minutes at £14.29 per hour = £1.19		1,190,786
2. Returning tax disc for a refund of vehicle excise duty	BVRLA indicate that 950,000 vehicles will require a refund	950,000	4,153,739
Postage and stationery	£0.80		760,000
Staff - completion of letter	5 minutes at £14.29 per hour = £1.19		1,131,246
Staff - Filling in reclaim form to DVLA	10 mins (based on DVLA exercise) = £2.38		2,262,493
3. Obtaining duplicate for tax disc lost in the post	BVRLA estimate that 104,000 tax discs are lost each year.	104,000	1,389,767
(a) DVLA fee for duplicate tax disc	£7.00		728,000
(b) Fleet Company informs DVLA of loss of tax disc			
Postage and stationery	£0.80		83,200
Staff write letter	5 minutes at £14.29 per hour = £1.19		123,842
Staff fill out application form	10 mins (based on DVLA exercise) = £2.38		247,683
(c) Fleet company re-posts tax disc to drivers			
Postage and stationery	£0.80		83,200
Staff - completion of letter	5 minutes at £14.29 per hour = £1.19		123,842
Total annual benefit			7,534,292
1. Wage costs based on ASHE 2013, uprated to 2014. Source for other figures is BVRLA.			
2. Cost figures used are unrounded for accuracy so figures in the total benefits column may differ slightly from those obtained by multiplying the columns for cost of activity by number of vehicles.			

B) Other Businesses and Civil Society Organisations

As part of the vehicle registration process, DVLA records if a vehicle is owned by a business/civil organisation or is privately owned. At the end of 2013, in addition to those owned by BVLA members, there were 3.88m vehicles kept by 'other' businesses or civil sector organisations. These other businesses have benefited from not having to:

- Return the disc to DVLA to get a refund when a vehicle is sold; or
- Obtain duplicates to replace lost tax discs.

Generally, these businesses and organisations do not rent out vehicles to customers so the benefits from not having to distribute discs do not arise. The benefits that have been estimated are set out in Table 3 below.

- Returning discs for a refund – there are about 2.9m refund applications each year. 950,000 refunds are by 'BVRLA fleets covered in table 2, leaving 1.95m refunds claimed by other vehicle owners. There are 33.2m vehicles owned by non-BVRLA members. We assume that the probability that other businesses and civil organisations will claim a refund is the same as for the general public. This suggests that 277,700 refunds are issued to 'other' businesses and civil sector organisations $[(1.95\text{m refunds} / 33.2\text{m}) \times 3.88\text{m}]$.³ Based on 277,700 refunds, the estimated benefit of abolishing the tax disc to other businesses and civil organisations would be £995k pa;
- Not having to obtain a duplicate tax disc – 235,800 duplicate tax discs were issued in 2013-14, and this volume was expected to have remained steady. The BVRLA says that 104,000 duplicate discs were requested by its members, leaving 131,800 from other businesses, civil organisations and the public.⁴ We assume that the rate at which duplicate tax discs were requested was the same for other businesses and civil organisations as it was for the general public. Based on the ratio of vehicles owned by other businesses and civil organisations to those owned by the general public we estimate that 15,395 requests for duplicate tax discs would have been made by other businesses and civil sector organisations, costing them £175k pa.

³ The higher level of refunds for BVRLA members compared to other car owners reflects the fact that the vehicle hire/leasing industry is very fluid with a high turnover of vehicles at fleet companies. Vehicles often change hands and fleet companies regularly update their fleet with newer vehicles to make them attractive to lease.

⁴ Fleet companies affiliated to BVRLA receive vehicle tax discs from the DVLA and then post them to individuals/business that have leased the vehicles. This means that the rate of loss of vehicle tax discs is much higher than for other vehicle owners who receive the tax disc directly. In addition, we believe that there are sometimes problems with customers of fleet vehicles who may not inform the fleet company when they change address. Hence tax discs may be sent to the wrong address.

Table 3: Benefits to Non-BVRLA Businesses And Civil Society Organisations from Abolition of the Tax Disc Each Year (£s, 2014 prices)

Activity	Cost of Activity	Number of Vehicles	Total Benefit
1. Returning tax disc for a refund of vehicle excise duty	£4.37	227,771	995,361
Of which:			
Postage and stationery	£0.80		
Staff - completion of letter	5 minutes at £14.29 per hour = £1.19		
Staff - Filling in reclaim form to DVLA	10 mins (based on DVLA exercise) = £2.38		
2. Obtaining duplicate for tax disc lost in the post	£11.37	15,395	175,041
Of which			
DVLA fee for duplicate tax disc	£7.00		
Postage and stationery	£0.80		
Staff write letter	5 minutes at £14.29 per hour = £1.19		
Staff fill out application form	10 mins (based on DVLA exercise) = £2.38		
Total Annual Benefits			1,170,403
1. Wage costs based on ASHE 2013, uprated to 2014. Source for other figures is BVRLA. 2. Cost figures used are unrounded for accuracy so figures in the total benefits column may differ slightly from those obtained by multiplying the columns for cost of activity by number of vehicles.			

General public – There will be benefits to the general public from not having to return discs to DVLA for a refund or to apply for a duplicate disc.

Based on the current total number of refunds each year (about 2.9m) and the refunds to BVRLA members (950,000) and other businesses (228,000), there will be 1,722,000 refunds to the general public;

Based on the total number of applications for duplicate discs each year (235,800) and the duplicates issued to BVRLA members (104,000) and other businesses (15,395), there would have been 116,000 (116,405) duplicates issued to the general public.

Table 4 sets out the annual benefits to the public from abolition of the tax disc. The calculations have been made on the same basis as those in Table 3, except that the DfT value of leisure time for the general public from Webtag has been used to estimate savings from filling in forms and writing letters instead of a staff hourly wage rate. Total annual benefits to the general public are £5.4m.

Table 4: Benefits to the General Public from Abolition of the Tax Disc, Oct 2014 - Sep 2015 (£s, 2014 prices)

Activity	Cost of Activity	Number of Vehicles	Total Benefit
1. Returning tax disc for a refund of vehicle excise duty	2.47	1,722,229	4,259,219
Postage and stationery	0.80		
Write letter and fill out application form (15 mins) ¹	15 minutes at £6.69 per hour = £1.67		
2. Obtaining duplicate for tax disc lost in the post	9.47	116,405	1,102,714
DVLA fee for duplicate tax disc	7.00		
Postage and stationery	0.80		
Write letter and fill out application form (15 mins) ¹	15 minutes at £6.69 per hour = £1.67		
Total Annual Benefits			5,361,934
1. Uses value of leisure time to general public taken from DFT Webtag to monetise time savings.			
2. Cost figures used are unrounded for accuracy so figures in the total benefits column may differ slightly from those obtained by multiplying the columns for cost of activity by number of vehicles.			

There will be no other benefits to the general public. They will continue to need to tax their vehicles as they currently do.

Non-Monetised Benefits

Government – there may be a small improvement in accuracy of the personal details held on the vehicle record as motorists become increasingly aware that the record must be up to date for them to receive their automatic refunds. Also, more people may decide to tax their vehicle on-line if the previous motivation to use the Post Office was the fact that they would have a disc on the day of the transaction.

General Public –If people do decide to licence on-line as a result of abolition of the tax disc they will benefit from the quicker transaction provided by EVL where a vehicle can be taxed on-line within minutes, without the need to travel to a Post Office to complete the transaction.

Business and Civil Society Organisations – there could be benefits for organisations as there will be no vehicle downtime while they waiting for a tax disc to arrive. No quantification of this benefit has been made by business or civil society organisations.

Monetised Costs

Government

DVLA - The total cost of implementing the preferred option for DVLA was £4m to update IT systems and to cover POL's unanticipated costs relating to updating their IT systems, legal fees, staff training and other familiarisation requirements. This occurred in 2014.

POL – The DVLA's contract with POL provides for the payment of fees for the various transactions that it undertakes for the Agency. The Contract has been varied to acknowledge the time now saved by POL staff not having to store, fill out and distribute tax discs as part of the licensing process.

The contract is the subject of a Tendered Framework Agreement, which specifically states that the Financial Model to be used by all bidders will be treated as commercially sensitive information. To disclose information about volumes and specific costs would be likely to prejudice the commercial interests of both DVLA and POL and would weaken DVLA's ability to secure the best Transaction Cost in respect of future business.

This said, it is clear that the overall annual payment for the Contract from DVLA to POL of circa £24m (2013/14 financial year published figures) will reduce to allow for a reduced vehicle licensing transaction cost resulting from the abolition of the tax disc together with a lower number of vehicle licensing undertaken via POL. However, the lost revenue will, as with the Royal Mail, be mitigated by the reduced requirement to complete the work itself. On that basis, therefore, the assessment is that the net cost to POL from abolition of the disc is £nil.

General Public – abolishing the tax disc has not changed motorists' requirement to pay vehicle tax.

There are two major types of changes that the general public will need to be familiar with:

- a) The fact that the tax disc has been abolished – this was widely publicised by DVLA and by news organisations and we estimate that it will take at most 30 seconds to become familiar with the fact that people no longer have to buy a physical disc and instead just need to make a payment using existing mechanisms. Familiarisation costs apply to all existing drivers⁵. In 2014 the general public taxed 29.35m vehicles. Evidence collected by DVLA indicates that the vast majority of the general public were aware of the changes on introduction so these costs all occur in 2014. The total costs is calculated by multiplying the amount of time taken by the number of applicants by the value of leisure time from DFT WebTag (=£6.69 per hour). This calculation gives a total cost of £1.64 m in 2014.
- b) Refund Process - The introduction of a new refund process which will mean that drivers who sell a car with an unexpired tax disc will no longer have to apply for a refund. In 2014, of the 29.35m vehicles taxed by the general public, 1.7m became the subject of a refund application - about 6% of the total. Given that most drivers continue to drive until

⁵ For new drivers, in the absence of information, we assume that the time costs of learning about the new arrangements are the same as the time costs of learning about the old arrangements which involved a physical disc.

their 70s or 80s once they have started, the vast majority of drivers will at some time have claimed a tax disc refund. However relatively new drivers are less likely to have, so we assume that 80% of drivers are familiar with the old refund process involving a paper tax disc. This means that at some point 80% of drivers will have to learn about the refund process who would not have had to if the paper disk had remained. However this will not all occur at once. In the first full year 80% of 1.7m will need to learn about the new process. In the second full year 80% x 1.7m x (1-0.06) will need to learn. In the third full year 80% x 1.7m x (1-0.06)² and so on.

Information on the new refund process is available on Gov.Uk. A small sample of people was asked to access this site and go through the relevant material. On the basis of the sample times we estimate it would take 3½ minutes to obtain the necessary information on refunds under the new system where the paper tax disc has been abolished. The value of leisure time from DFT WebTag is used to measure the cost of each minute. Under the central scenario the annual cost of learning about the refund process is approximately £0.5m although this falls over time to £0.37m in 2023-24. Low and high cost scenarios are modelled assuming 70% and 90% of drivers are familiar with the old refund process. It can be seen that the results are relatively insensitive.

Table 5: Familiarisation Costs to the General Public from Abolition of the Tax Disc (£m, 2014 prices)

	Oct 14 - March 15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	April 24- Sep 24	Total Costs
Abolition	1.64	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.64
Refund Process												
Central	0.27	0.51	0.49	0.47	0.45	0.44	0.42	0.40	0.39	0.37	0.18	4.41
Low	0.24	0.45	0.43	0.41	0.40	0.38	0.37	0.35	0.34	0.33	0.16	3.86
High	0.30	0.58	0.56	0.53	0.51	0.49	0.47	0.45	0.44	0.42	0.20	4.96

Business and Civil Society Organisations

Costs to Royal Mail (RM) - DVLA no longer has to post 31.445 million tax discs each year. This has had an immediate impact on the RM by reducing its gross revenue by 7.9m pa (calculated as 31.445m tax discs x 25.1p average postage per disc).

However, this loss is mitigated by a reduction in RM costs. Information on RM costs is very limited. Ofcom estimate that the unit cost for UKPIL – the letter and parcel arm of RM - of sending an item was 45p in 2013-14. This figure includes all costs relevant to sending letters and parcels, including infrastructure costs and restructuring costs. Through efficiencies and rationalisation of the estate, this cost has fallen slightly to 43p per item. RM's 2013-14 accounts provide a breakdown which allows us to estimate the variable components (people, distribution and conveyance costs) as being 84% of total unit costs. This produces an estimate of average variable cost of 36p per item.

However, DVLA is a bulk issuer of tax discs and has special arrangements for their collection with RM, which mean that the costs of handling them are lower than for general mail. In particular, tax discs go straight to the regional distribution centres rather than having to be collected locally and go through local mail centres. We think this is likely to reduce costs by 30% and that on this basis a price of 25.1p per item is likely to be very close to the cost of delivery for tax discs.

On this basis, the loss to RM from losing the tax disc business will be offset by the savings from reduced delivery costs so that there will be no net cost to the organisation.

Civil Society Organisations – there are no significant costs to civil society organisations from the abolition of the tax disc, other than a small amount of time that might have been taken up checking the new refund rules. The monetary value of this effort is contained in the figure calculated for members of the public.

Business Familiarisation Costs

Like the general public there will also be one off familiarisation costs to businesses from the abolition of the tax disc.

- a. Learning that the paper tax disc has been abolished - We assume that one person in each business with a vehicle deals with the tax disc. In line with the estimates produced for the general public we assume that it will take each business 30 seconds to become familiar with the fact that a physical tax disc no longer exists. The number of businesses with vehicles is not the same as the number of business vehicles as a business may own more than one vehicle. Table 6 gives our best estimates of the number of businesses which own vehicles. This is based on identifying those businesses which have drivers. The central estimate is that there were 392k businesses in 2014 which employed a driver. There is very limited information for the van driver estimates so we have carried out sensitivity analysis around the central estimate.

To estimate the cost we multiply the time it takes to find out about abolition of the tax disc (30 seconds) x the hourly wage for each sector group x the estimated number of workers involved with tax discs in each group. We then add across groups. Wage costs for employees in the different types of firms are based on estimates of the median hourly wage for distribution and transport clerks from the Annual Survey of Hours and Earnings (2013) uplifted for employer 'on' costs and uprated to 2014 prices. This is £14.29 per hour. For the self-employed we use the median hourly wage for each category – which is given in ASHE (2013) again uprated to 2014 and uplifted for 'on' costs. Table 8 shows that the total cost to becoming familiar with the fact that the tax disc has been abolished = £41k, with a low estimate of £38k and a high estimate of £46k.

Table 6: Number of firms likely to incur familiarisation costs as a result of the abolition of the tax disc (2014)					
	Self-Employed	Firms Employing Drivers	Total	Source	
Taxis/PHVs, Annual Employment	165,184	17,175	182,359	DFT statistics on Taxi and PHVs; Annual Employment Survey (AES) for self-employed	
Buses	0	1,000	1,000	DFT statistics on Buses; AES for Self-Employed	
Dealers	0	13,500	13,500	National Franchise Dealers Association	
Rental and Leasing Firms	0	1,000	1,000	BVRLA membership figures uprated for proportion of rental and leasing market covered by BVRLA.	
Driving Schools	36,396	951	37,347	Annual Employment Survey (assumes that each driving school will employ an average of four drivers - given the small numbers involved we do not do any sensitivity tests on this.	
Large Good Vehicles Drivers Van Drivers	32,573	48,321	80,894	DVSA figures on total number of operator licenses. AES for self-employed.	
Central	26,134	43,649	76,222	AES. Assumes that firms employ four drivers on average	
Low	26,134	21,825	54,398	AES. Assumes that firms employ eight drivers on average	
High	26,134	87,299	119,872	AES. Assumes that firms employ two drivers on average	
Total					
Central	260,287	125,596	392,322		
Low	260,287	103,771	370,497		
High	260,287	169,245	435,971		

- b) Refund Process - The introduction of a new refund process will mean that drivers who sell a car with unexpired tax will no longer have to apply for a refund. BVRLA estimates that 950k refunds are carried out by its members each year. As the volume is so high relative to the number of rental and leasing firms (1,000) we assume that all these firms will need to learn about the process in the first year.

We estimate that 277k tax disc refund applications are made by other firms annually. This represents 6% of the number of cars owned by these other firms (see earlier discussion in IA). We assume that the majority of businesses will have claimed a tax disc refund at some point in the past. However some relatively new firms may not have. Consequently, we assume that 80% of firms are familiar with the old refund process involving a paper tax disc.^{6 7} This means that at some point 80% of business drivers will have to learn about the new arrangements who would not have had the paper disc remained. However this will not all occur at once. In the first full year 80% of 277k will need to learn about the new process. In the second full year $80\% \times 277k \times (1-0.06)$ will need to learn. In the third full year $80\% \times 277k \times (1-0.06)^2$ and so on.

Information on the new refund process is available on Gov.UK. A small sample of people was asked to access this site and go through the relevant material. On the basis of the sample times we estimate it would take 3½ minutes to obtain the necessary information on refunds under the new system where the paper tax disc has been abolished. The

⁶ The tax disc refund process has remained largely unchanged since its introduction.

⁷ For new drivers, we assume in the absence of information that the time costs of learning about the new arrangements are the same as the time costs of learning about the old refund arrangements which involved a physical disc.

value of time used to calculate costs are exactly the same as for general familiarisation costs under (a) above.

Under the central scenario the annual cost of learning about the refund process is approximately £0.05m in the final six months of 2014-15. This falls over time as more firms become familiar with the process. Low and high cost scenarios are modelled assuming 70% and 90% of drivers are familiar with the old refund process. It can be seen that the results are relatively insensitive.

	Oct 14 - March 15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	April 24- Sep 24	Total Costs
Abolition												
Central	0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04
Low	0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04
High	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05
Refund Costs												
Central	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.10
Low	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.07
High	0.00	0.01	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.05
Total Costs												
Central (80% done refunds & central van)	0.05	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.14
Low (70% done refunds & low van)	0.04	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.11
High (90% done refunds & high van)	0.05	0.01	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.10

Non-monetised Costs

The police are content that the potential impact of the reduced opportunity to detect other offences through the absence of a valid tax disc will be small. It is recognised that the current enforcement model using ANPR cameras and on-line checks of the Police National Computer, which is underpinned by the VED, MoT and insurance databases, has completely altered the former reliance on offence reports submitted by patrolling officers. The number of these reports had already reduced significantly over the past five years.

Summary Costs and Benefits

Table 8 shows the discounted present value of the costs and benefits from Option 1, abolition of the tax disc. Costs and benefits are calculated over 10 full years from the introduction of the policy.

Table 8 show that the NPV of Option 1. Three values are given representing the three different scenarios modelled for familiarisation costs. Under the central scenario the NPV = £228.6m and the Business NPV = £73.5m.

Table 8 shows that both the NPV and Business NPV are relatively insensitive to the different scenarios which have been modelled.

Table 8: Present discounted costs and benefits of Option 1 (£s, 2014 prices)												
	Oct 2014- Mar 2015	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	April 2024- Sep 2024	Total
Costs												
One Off Costs for DVLA Systems	4.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.00
General Public - Familiarisation Costs												
Central	1.91	0.50	0.46	0.43	0.40	0.37	0.34	0.32	0.29	0.27	0.13	5.41
Low	1.87	0.44	0.40	0.37	0.35	0.32	0.30	0.28	0.26	0.24	0.11	4.94
High	1.94	0.56	0.52	0.48	0.45	0.41	0.39	0.36	0.33	0.31	0.14	5.88
Business and Civil Sector Organisations - Familiarisation Costs												
Central (80% done refunds & central van)	0.05	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.13
Low (70% done refunds & low van)	0.04	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.10
High (90% done refunds & high van)	0.05	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.09
Total Costs												
Central	5.95	0.51	0.47	0.44	0.41	0.38	0.35	0.32	0.30	0.28	0.13	9.54
Low	5.92	0.44	0.41	0.38	0.35	0.33	0.31	0.28	0.26	0.24	0.11	9.04
High	5.99	0.57	0.52	0.49	0.45	0.42	0.39	0.36	0.33	0.31	0.14	9.97
Benefits												
DVLA Running Cost	6.89	13.31	12.86	12.43	12.01	11.60	11.21	10.83	10.46	10.11	4.88	116.58
General Public	2.68	5.23	5.11	4.99	4.88	4.78	4.68	4.57	4.47	4.36	2.13	47.88
Of which:												
Not Returning Tax Disc for a Refund	2.13	4.16	4.07	3.99	3.91	3.83	3.76	3.68	3.60	3.53	1.73	38.39
Not obtaining duplicate tax disc lost in the post	0.55	1.07	1.04	1.00	0.97	0.95	0.92	0.89	0.86	0.84	0.41	9.49
Business and Civil Sector	4.35	8.41	8.13	7.85	7.59	7.33	7.08	6.84	6.61	6.39	3.09	73.66
Of which:												
Not re-posting to	1.00	1.92	1.86	1.80	1.73	1.68	1.62	1.56	1.51	1.46	0.71	16.85
Not returning tax disc for a refund	2.57	4.97	4.81	4.64	4.49	4.34	4.19	4.05	3.91	3.78	1.83	43.57
Not obtaining duplicate tax disc lost in the post	0.78	1.51	1.46	1.41	1.36	1.32	1.27	1.23	1.19	1.15	0.55	13.24
Total Benefits	13.92	26.95	26.10	25.27	24.47	23.71	22.97	22.24	21.54	20.86	10.10	238.12
Net Present Value												
Central												228.59
Low												229.09
High												228.15
Business Net Present Value												
Central												73.53
Low												73.56
High												73.57
All figures discounted at 3.5% pa in line with HMT Green Book guidance.												

Risks and assumptions

Increased Vehicle Excise Duty Evasion

Whilst there could be a risk that the abolition of the tax disc might encourage some people to evade payment of VED, this is not expected to happen to any significant extent. DVLA has a

comprehensive and effective package of measures to encourage compliance and identify unlicensed vehicles. These include:

- Technological – the use of Electronic Vehicle Licensing (EVL) has continued to rise, making compliance easier for vehicle keepers and removing in most cases the need to gather documents together and physically visit a Post Office branch to tax the vehicle.
- Communication – DVLA reminds motorists of the importance of taxing their vehicles, the availability of EVL and also the ultimate consequences of failing to re-tax on time. DVLA's approach of making compliance as easy as possible has meant that 94% of motorists tax their vehicle when they get the V11 reminder form. Sending a follow up reminder letter two weeks after expiry of the vehicle licence prompts most of the 'forgetful' 6% to become compliant before enforcement action is taken and penalties are incurred.
- Penalties – the range of enforcement measures used to detect and curb evasion currently includes 'from the record' civil penalties; Automatic Number Plate Recognition (ANPR) systems; out of court settlements and Magistrates' Court prosecutions, together with the wheel clamping and impounding of unlicensed vehicles.

Wider Impacts

Small and Micro Business Assessment

Overall, abolition of the tax disc will be beneficial to small firms and micro businesses. They will share the benefits derived from not having to apply for refunds of duty and for duplicate tax discs. For some, there will be a small cost in having to spend time to familiarise themselves with the new rules. This has been estimated as likely to take up to one hour, costing £14.29.

Some licensing post offices will lose fee income for filling out tax discs. The average across the licensing post office network is about £700 pa, but for offices in the small and micro-business category, this amount will be lower. A higher proportion of tax discs were issued by Crown post offices and those operated by larger franchises.

In view of the low costs and the generally beneficial outcome to most businesses a more detailed assessment of the impacts on small and micro-businesses has not been carried out. Small and microbusinesses are therefore not exempt from this measure.

Equalities Impact

This measure applies equally to all motorists and there are no particular impacts on people with protected characteristics.

Publicity and Levels of Awareness

The DVLA's campaign was based on a low cost approach in order to protect the public purse.

It has always been acknowledged that the expiry of the tax disc can act as a reminder to people that a vehicle needs to be re-licensed. However, DVLA already sends out two reminders by post to re-enforce this trigger. It is only when these reminders are ignored that a late licensing penalty is issued. Customer insight research showed that over 90% of people were aware that the tax disc was being abolished at the time the changes came into effect.

To follow up on this already high level of understanding, the Agency has employed a variety of mechanisms to re-enforce the message. These have included updates on gov.uk, weekly updates on Twitter and Facebook. The DVLA also engaged with over 6000 stakeholders and commercial customers. Since 5 September 2014 all vehicle tax renewal reminders have explained the changes. This message will be issued every month, directly to individual consumers at the time when it is most relevant. There was also widespread national and regional print and media coverage at the time abolition came into effect.

Other measures included:

- Explanatory toolkits for the public and industry;
- live webchats to enable the general public and industry to raise issues;
- communications for dealers, with regular email updates ;
- Extensive communication with the representative trade bodies; and
- A specified e-mail address for dealers to submit queries.

The Agency is confident that these measures will maintain current levels of awareness and no extra costs are envisaged in that respect.

Policy Review

Abolition of the tax disc will reduce the burden on business, so the policy will not be the subject of a statutory review. However, the possibility for there to be an increase in the rate of VED evasion will be monitored continuously, although the Government is confident that the DVLA operational and compliance measures are robust and effective enough to deal with any evasion risk. These measures have already helped to improve compliance and vehicle excise duty evasion is at a historic low of just 0.6 per cent. The latest vehicle tax evasion figures were published in 2013. Further analysis will take place in the coming months and the results will be published in due course.

One In Two Out

The measure is in scope of One In Two Out. The measure is classified as an Out because it will result in a reduction of burdens to business.

Business Net Present Value [

The business net present value for Option 1, the preferred option is £73.53m in 2014 prices and discounted to 2014.

The business net present value is made up of business savings from not having to:

- Repeal a tax disc to consumers = £16.85m;
- Return tax discs for a refund = £43.57m;
- Replace tax discs lost in the post = £13.24m.
- These are some small familiarisation costs of £0.13m.

Equivalent Annual Net Cost to Business (EANBC)

The EANBC of option 1, abolition of the tax disc = -£6.72m over the 10 full years of the appraisal.