

## Summary: Intervention & Options

<b>Department /Agency:</b> <b>HMRC</b>	<b>Title:</b> <b>Impact Assessment of the implementation of the Energy Products Directive (EPD) on private pleasure boats</b>	
<b>Stage:</b> Final Proposal	<b>Version:</b> [ 1 ]	<b>Date:</b> 14 February 2008
<b>Related Publications:</b> Impact Assessment of the implementation of the Energy Products Directive on private pleasure flying		

**Available to view or download at:**

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

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

Private pleasure boats were permitted, under an EU derogation, to use marked rebated fuel (red diesel) for propulsion purposes. This derogation expired in December 2006 despite the UK submitting an application for renewal. The use of red diesel for domestic purposes (to generate heat and light), however, is still permitted, as is its use by commercial vessels for propulsion.

The Government needs to implement a scheme that ensures that we comply with the terms of the Energy Products Directive (EPD), while taking all of these factors into account.

**What are the policy objectives and the intended effects?**

To implement a scheme to comply with the EPD which:

- a) minimises the tax and administrative burdens on the industry;
- b) recognises that rebated fuel can still legitimately be used for domestic purposes; and
- c) is proportionate to the revenue at risk.

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

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

private pleasure vessels will continue to be permitted to use marked fuel (red diesel) but at the rate for heavy oil, repaying the rebated duty via the Registered Dealers in Controlled Oils (RDCOs) who will declare this to HMRC. An allowance for domestic use will be permitted.

**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.***

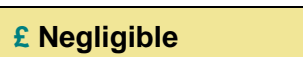
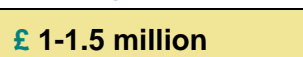
Signed by the responsible Minister:


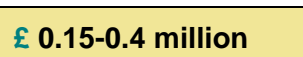
Angela Eagle

.....Date: 20 February 2008

## Summary: Analysis & Evidence

<b>Policy Option:</b>	<b>Description:</b>
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<b>COSTS</b>	<b>ANNUAL COSTS</b>	Description and scale of <b>key monetised costs</b> by 'main affected groups'  Registered Dealers in Controlled Oils (RDCOs) - One-off familiarisation costs and setting up systems and ongoing costs processing fuel transactions and making duty returns & payments HMRC - Small systems changes and processing costs
	One-off (Transition) <span style="float: right;">Yrs</span> 	
	Average Annual Cost (excluding one-off) 	
	<b>Total Cost (PV)</b>	
Other <b>key non-monetised costs</b> by 'main affected groups' Small (mainly one-off) costs for boat owners and users in terms of general awareness of the changes and in providing evidence to RDCOs of commercial use. HMRC's extra enforcement costs have not been estimated. Possible small effect on competition between fuel suppliers but not expected to be significant.		

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>	Description and scale of <b>key monetised benefits</b> by 'main affected groups'  Reduction in carbon dioxide emissions from lower use of gas oil (red diesel) for private pleasure boating
	One-off <span style="float: right;">Yrs</span> 	
	Average Annual Benefit (excluding one-off) 	
	<b>Total Benefit (PV)</b>	
Other <b>key non-monetised benefits</b> by 'main affected groups' Avoids infraction proceedings by the European Commission. Other environmental and air quality benefits from a reduction in pollutants such as nitrous oxides and sulphur dioxide.		

**Key Assumptions/Sensitivities/Risks** Estimates of compliance costs are highly dependant on the time taken for RDCOs to process fuel transactions, keep records and submit duty returns and payments. HMRC estimate up to 500 RDCOs could be affected. Exchequer impact estimated at roughly + £10 to 15 million in a full year depending on the domestic allowance.

Price Base Year	Time Period Years	<b>Net Benefit Range (NPV)</b> £	<b>NET BENEFIT (NPV Best estimate)</b> £
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What is the geographic coverage of the policy/option?	UK				
On what date will the policy be implemented?					
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/No				
What is the value of the proposed offsetting measure per year?	£				
What is the value of changes in greenhouse gas emissions?	£ 0.15-0.4 million				
Will the proposal have a significant impact on competition?	No				
Annual cost (£-£) per organisation (excluding one-off)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">Micro ~ £2-3k</td> <td style="width: 25%; text-align: center;">Small ~ £2-3k</td> <td style="width: 25%; text-align: center;">Medium ~ £2-3k</td> <td style="width: 25%; text-align: center;">Large ~ £2-3k</td> </tr> </table>	Micro ~ £2-3k	Small ~ £2-3k	Medium ~ £2-3k	Large ~ £2-3k
Micro ~ £2-3k	Small ~ £2-3k	Medium ~ £2-3k	Large ~ £2-3k		
Are any of these organisations exempt?	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">No</td> <td style="width: 25%; text-align: center;">No</td> <td style="width: 25%; text-align: center;">N/A</td> <td style="width: 25%; text-align: center;">N/A</td> </tr> </table>	No	No	N/A	N/A
No	No	N/A	N/A		

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)		(Increase - Decrease)
Increase of	£ 1-1.5m	Decrease of £ 0
<b>Net Impact</b>		<b>£ 1-1.5 million</b>

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

## Evidence Base (for summary sheets)

### Background

1. UK legislation on oils taxation is contained in the Hydrocarbon Oil Duties Act 1979 (HODA). The EU legislation governing mineral oils structure and rates was contained in three directives (92/80/EEC, 92/81/EEC and 92/82/EEC) which sought to harmonise the treatment of mineral oils for taxation purposes. Some aspects of HODA were incompatible with the directives; however, derogations were negotiated to cover these inconsistencies. These expired on 31 December 2006.

2. The mineral oils directives were repealed by the introduction of the EPD in 2004. This removed the need for some of the derogations; however, the remaining ones retained their expiry date of 31 December 2006. One of these derogations related to the treatment of fuel used in private pleasure boats. Under the terms of the mineral oils directives and then subsequently the EPD, fuel for private pleasure boats was to attract the full rate of duty. The derogation permitted the UK to charge duty for this fuel at the rebated rate.

3. The UK applied for renewal of the derogation; however, our application was rejected on the grounds that, since the fuel had been taxable in principle since 1993, Member States had had enough time to adapt to the requirements of community law. The Commission also did not accept our case that there would be additional administrative burdens or compliance costs resulting from the expiry of the derogations. They stated that if such arguments were to be accepted then the derogation would need to be maintained indefinitely, contradicting the principles that derogations are time limited and introduced with the aim of assisting with initial difficulties encountered with the introduction of new regimes.

4. Ministers announced in Budget 2007 to implement changes to meet the requirements of the EPD with effect from November 2008, with legislation in Finance Bill 2008. The Government also made a commitment to consult on the new regimes.

5. Prior to consulting, we met informally a number of stakeholders who expressed concern at the expiry of the pleasure boat derogations, seeking information and their views in order to develop a number of options. These organisations were:

- The Royal Yachting Association (RYA)
- The British Marine Federation (BMF)
- The Inland Waterways Association (IWA)
- The Federation of Petroleum Suppliers (FPS)
- The Residential Boat Owners' Association (RBOA)

6. Commercial craft are unaffected by the expiry of the derogation and can continue to use rebated fuel.

7. Ministers said that we would look for ways of implementing the new regime which would both minimise the impact, and ensure that any additional compliance burden was as small as possible.

### Consultation

8. The formal consultation exercise was held from 1 August – 31 October 2007. Three options were put out to consultation:

- continued use of red diesel for private pleasure boating but at the full rate of duty with the supplier collecting the duty on the sales. This would extend the current obligations of Registered Dealers in Controlled Oils (RDCOs);
- continued use of red diesel for private pleasure boating but at the full rate of duty with the user paying the duty direct to HMRC; and
- switch to unmarked fully paid Ultra Low Sulphur Diesel (ULSD) for private pleasure boating.

Views were also sought on the possibility of a certification scheme for house boats which use red diesel for domestic but not propulsion purposes.

9. These options were drawn up taking into account the current position :

- Private pleasure craft are currently able to use red diesel on which duty has been partially rebated;
- The supply infrastructure supports use of red diesel as most suppliers of fuel to the boat industry provide only rebated red diesel; fuel sites are typically located in harbours, marinas, on floating barges and on towpaths. Supplying a second fuel stream would involve substantial cost for suppliers (new pumps and tanks are estimated at £20,000);
- That of the approximate 500,000 private pleasure boats in the UK, 350,000 are motor boats and depend upon engines for propulsion. Some of these will be residential in nature and also use their engines to provide energy for heat and light.
- Private pleasure boats are currently able to use rebated fuel legitimately both for propulsion and to provide heat and light. The cost of fitting a second tank, where space is available would vary depending on the size and type of boat; estimated at around £750 for a typical inland cruiser.

### **Final proposed scheme**

10. The consultation exercise provided support for the continued use of red diesel with the supplier liable for the charging and accounting for duty. A significant number of responses proposed that fuel used for heating and lighting should not be taxed at the full duty rate since there is no requirement to do so under the EPD.

11. Following the results of the formal consultation exercise the final proposal is that:

- Private pleasure vessels will continue to use marked fuel (red diesel) but at the rate for heavy oil, repaying the rebated duty via the RDCOs who will declare this to HMRC. The rebated rate of duty is currently 9.69 ppl; the full rate is currently 56.94 ppl.
- An allowance for domestic use will be permitted.

12. The benefit of continuing to use marked fuel is that the supply infrastructure is already in place, and existing equipment and tankage can continue to be used. Fuel will continue to be available to pleasure craft throughout the UK, and there will be no restraint on pleasure cruising as a result of pleasure craft being unable to refuel.

### **Compliance costs for boat owners/users and business**

13. This solution will impose a number of burdens on fuel suppliers and boat owners. Rebated fuel is supplied only by Registered Dealers in Controlled Oils (RDCOs) who are required to maintain records of their sales. RDCOs who supply fuel to private pleasure craft will be required to identify such sales, charge the higher rate of duty at the point of sale and pay this to

HMRC when they submit their return. To take into account RDCOs' concerns at their ability to distinguish commercial users from private pleasure users, if the supplier is unsure of the use to which the fuel is to be put, the purchaser of the fuel will be required to self certify that status of the vessel as commercial or private and to produce evidence of commercial status and entitlement to the rebated rate. If no evidence is provided to the supplier the purchase will be charged the full duty rate. *Guidance on this issue will be developed.*

14. The existing RDCO scheme does not require RDCOs to make payments of duty. RDCOs are required to simply record and declare to whom they have made sales of rebated fuel. The level of detail RDCOs are required to declare on their returns varies depending on the volume and nature of the sale. For example for domestic sales under 3500 litres and retail or pump sales only the total volume sold and the total number of sales is required. For higher volume sales individual transaction details are required. This reflects the fact that the RDCO scheme was introduced to track the sale of large quantities of rebated fuel.

15. Requiring RDCOs who supply fuel to private pleasure craft to collect and account for duty on retail or pump sales will increase the administration burden on them. It will also place a compliance obligation on them as they will need to charge marked fuel at the higher rate unless the purchaser provides evidence of entitlement to the rebated rate. In order for them to satisfy HMRC that the correct rate has been charged they will need to keep records of their individual retail sales.

16. We will hold further discussions with key stakeholder groups to agree a scheme whereby boat users will also be asked to certify the proportion of fuel which they intend to use other than for propulsion. The scheme will build on the self certificate system proposed above to enable RDCOs to distinguish commercial from private use, and the allowance will be made at the time the fuel is purchased.

## RDCOs

17. This scheme will impose the following obligations on RDCOs:

- An obligation to keep records of taxpayers paying the higher rate of duty on rebated oil; and
- An obligation to collect and account for the duty to HMRC.

One-off compliance costs for RDCOs will mainly involve some time spent familiarising themselves with the changes and ensuring suitable record keeping and payment systems are in operation. These costs are not expected to exceed an average of £200 per business, for the estimated 500 RDCOs who will be affected.

18. Based on RDCOs submitting an annual return, which HMRC estimates could take approximately 4 hours to complete, and using average wage rates for businesses submitting HO10 (oils duty) returns from HMRC's admin burdens database, an estimate for these ongoing compliance costs is approximately £50,000 a year.

19. In addition, fuel suppliers will need to process individual fuel transactions and charge duty to private pleasure boat users, including making a suitable adjustment for a domestic allowance. This is expected to take no more than an extra 5 minutes per transaction (and is likely to be less once the changes bed in). Based on an estimated 750,000 private pleasure boating transactions a year, and a wage rate of £20 per hour, these ongoing compliance costs are estimated at around £1.25 million each year.

20. The estimates above are uncertain and it is therefore appropriate to present a range for overall ongoing compliance costs of between £1 million and £1.5 million which could result from varying assumptions such as the length of time spent processing fuel transactions and

completing annual duty returns, the numbers affected (both RDCOs and fuel transactions) and average wage rates.

### Commercial boat owners

21. Commercial boat owners will need to provide evidence of commercial use if requested by the fuel supplier to continue to use rebated gas oil. This might take the form of an operators' licence or health and safety certificate, for example. In many cases this will only need to be done once at the outset because the fuel supplier will make a note in their records for future reference, and therefore such costs are expected to be minimal.

### **HMRC costs**

22. The changes will also impose some administrative costs on HMRC who will need to devise and operate a compliance and enforcement regime and process duty returns and payments. However, the intention is to use existing HMRC systems and processes to do this work and so any extra costs will be low in relation to the additional revenues collected.

### **Exchequer impact**

23. HMRC estimates that the revenue gain from the expiry of the boat derogation will be broadly in the range £10 to £15 million in a full year taking account of an allowance for domestic use, although the precise details and workings of such an allowance are still to be decided following discussions with those affected. Taken in the context of total hydrocarbon oils duty revenues of £25 billion a year, the private pleasure boat sector will account for a fraction of one per cent of total revenues.

### **Carbon and environmental impact**

24. The loss of the derogation increases the price of fuel for private pleasure boat propulsion which, other things equal, will reduce the amount of fuel used for this purpose. This has a direct carbon and environmental benefit. It is estimated that private pleasure craft have the following carbon impact:

Year	2007
Fuel used for private pleasure boating *	37 million litres
Converted to tonnes **	32,000 tonnes
Amount of carbon per tonne of fuel ***	0.85 tonnes
Total amount of carbon	27,000 tonnes
Social cost of carbon per tonne ***	£95
Total carbon cost of private pleasure boating	£2.6 million

\* HMRC estimate based on RDCO returns (including domestic use)

\*\* Using a conversion factor of 1,161 litres of gas oil per tonne

\*\*\* Source: Department for Environment Food and Rural Affairs

25. The carbon benefit from the loss of the derogation depends on the extent of the reduction in fuel use following an increase in price through taxation. In line with most fuels, the demand for private pleasure boating use is expected to be relatively insensitive to price changes ('inelastic'),

although it is expected that prices for gas oil could more than double after the duty change and the following table estimates a range of possible carbon benefits arising from a reduction in fuel use.

	Lower estimate	Central estimate	Upper estimate
Reduction in fuel use for propulsion (illustrative)	10%	20%	30%
Carbon benefit	£0.15 million	£0.25 million	£0.4 million

26. There will also be other environmental benefits from a reduction in fuel use for private pleasure boating – mainly improvements in air quality from reductions in pollutants such as sulphur dioxide but these have not been quantified in this assessment.

### **Competition assessment**

27. The loss of the derogation will increase the price of fuel for private pleasure boat use. Other things equal, this will reduce the volume of sales which could have a knock-on impact on the profit margins of some suppliers, at least initially, which in turn could lead to a reduction in the number of suppliers. However, the overall competition effect is expected to be small because gas oil is a widely available fuel and the changes are not expected to significantly raise the costs of new fuel suppliers relative to existing fuel suppliers or limit the ability of, or the incentive for, fuel suppliers to compete vigorously.

## 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	No	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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