

Title: The Date to End of Month (DEOM) scheme IA No: DfT00235 Lead department or agency: Department for Transport Other departments or agencies: DVLA	Impact Assessment (IA)			
	Date: 08/08/2013			
	Stage: Final			
	Source of intervention: Domestic			
	Type of measure: Secondary legislation			
Contact for enquiries: Simon Andrew simon.andrew3@dvla.gsi.gov.uk 01792 783954				
Summary: Intervention and Options			RPC: RPC Opinion Status	

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
£2.1m	£1.21m	-£0.12m	Yes	OUT

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

The Date to End of Month (DEOM) scheme
 DEOM is issued on request at the point of first registration and customers can choose to tax their unregistered vehicle for 6 or 12 months plus an additional one, two or three weeks. There are three start dates: 10th, 17th, and 24th of each month and a supplement based on the annual cost of a vehicle licence are charged for the additional weeks. The tax disc shows the correct expiry date but will have a note advising 1, 2 or 3 additional weeks.

The problem - some vehicles for which a 'Nil' tax disc is issued cannot be included within the DEOM scheme, this could be considered unfair to some motorists if the vehicle is registered in the middle of a month. Currently, vehicles with low emissions or vehicles which are exempt due to their use e.g. disabled, are excluded (due to regulations) from the DEOM scheme. Government intervention is therefore fair, and right, to include all vehicles/motorists within the DEOM scheme. Licensing and registration of a vehicle is a legislative requirement, so government intervention is required to amend the regulations to extend the DEOM scheme. This would solve a problem for Motability Operations in particular, only requiring vehicles to be licensed three times instead of four during a three year lease period.

What are the policy objectives and the intended effects?

The Government has a policy objective to reduce the burden on motorists by cutting Red Tape and specifically allow all vehicles to be in the remit of the DEOM scheme. The main affect is a reduction in admin costs involved to business/DVLA in applying for a 4th tax disc in a three year fleet lease cycle. This policy will mainly benefit Motability Operations. However, all vehicle keepers will be able to use DEOM. The objective is to provide the same service for vehicles which are currently outside the scope of DEOM by amending regulations. The objective is part of the red tape challenge, this initiative, sponsored by the Cabinet Office, is part of the ongoing drive to reduce the burden of regulation.

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

Option 1 - The status quo to remain. Some vehicles for which a 'Nil' tax disc is issued cannot take part in the DEOM scheme.

Option 2 - To allow those who are currently excluded from the DEOM scheme to obtain a nil tax disc with an additional 1, 2 or 3 weeks added to a 12 month disc. This will require an amendment to the current regulations. (preferred option).

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 01/2018						
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 CO2 equivalent change in greenhouse gas emissions? (Million tonnes CO2 equivalent)			Traded: 0		Non-traded: 0	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: _____ Robert Goodwill _____ Date: 16/11/2013

Summary: Analysis & Evidence

Policy Option 2

Description: To allow those who are currently excluded from the DEOM scheme to obtain a nil tax disc with an additional 1, 2 or 3 weeks added to a 12 month disc.

FULL ECONOMIC ASSESSMENT

Price Base	PV Base	Time Period	Net Benefit (Present Value (PV)) (£m)		
Year 2013	Year 2013	Years 10	Low: 2.11	High: 2.11	Best Estimate: 2.11

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.21	1	0.46	4.02
High	0.21		4.57	38.25
Best Estimate	0.21		1.14	9.73

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

There are one-off costs of £206k from set-up costs for IT from the introduction of the new system.
Under the best estimate scenario £1.1m of Vehicle Excise Duty (VED) is lost every year from the extension of DEOM. This is based on a take-up rate of 25% for eligible drivers.
Based on industry consultation we believe there will be nil business costs from the introduction of this scheme. There are also zero costs to the public.

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

There are no other non-monetised costs associated with this policy option.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	1	£7.37	6.13
High	0		4.85	40.36
Best Estimate	0		1.42	11.84

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

Under the best estimate scenario drivers of vehicles subject to Graduated VED will pay £1.14m less under this option – assuming there is 25% take up from eligible based on current take-up levels for DEOM.
Reduction in admin costs at £0.14 million per year for the DVLA
Reduction in admin costs at £0.14 million per year for Motability.

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

All vehicle keepers able to use the DEOM scheme. Vehicle keepers able to use a tax exempt vehicle from day of purchase without having to backdate the tax disc. The additional weeks requested are simply annotated on the tax disc. Reduction in admin tasks involved to business/DVLA in applying for 4th tax disc in a three year lease cycle.

Key assumptions/sensitivities/risks

Discount rate (%) 3.5%

The best estimate assumes that 25% of drivers who become eligible for DEOM will take it up. This is based on current take-up rates for existing eligible drivers.
The high estimate assumes that all newly eligible drivers will take-up DEOM.
The lower estimate assumes that only 10% of newly eligible drivers will take-up DEOM.
More work will need to be done on modelling the business benefits of the changes once the extension to DEOM has bedded in with stakeholders.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: 0	Benefits: 0.1	Net: 0.1	Yes	OUT

Evidence Base - The Date to End of Month (DEOM) scheme

Problem under consideration

All vehicles kept or used on the public road must be registered and taxed in accordance with UK legislative requirements. Vehicles are taxed based on their construction and on their use.

The problem is that some vehicles for which a 'Nil' tax disc is issued cannot take part in the DEOM scheme. This means that vehicles which have low CO₂ emissions (Table 2) or vehicles which are exempt due to their use, e.g. disabled, agricultural (those outlined in Table 3) are excluded from the DEOM scheme.

Government intervention, by amending regulations, will mean an extension to the DEOM scheme. The DEOM scheme will be available to all motorists. Government intervention is therefore fair, and right, to include all vehicles/motorists within the DEOM scheme.

DEOM would solve a problem for Motability Operations in particular, only requiring vehicles to be licensed three times instead of four during a three year lease period. This reduces the administrative burden of having to get a 4th disc.

- For example, a disc is applied for to start from the 10th August 2013, to coincide with the start of the lease. (the disc is not backed to the beginning of month under DEOM).
- A nil disc is issued for 12 months plus the extra weeks.
- The renewal of the disc would therefore be 1 September 2014 (disc 2) and 2015 (disc 3)
- The lease will end on 10th August 2016.

Rationale for Intervention

The registration and licensing of all vehicles kept or used on the public roads in the UK is a legislative requirement. Some keepers are unable to take part in DEOM as these vehicles are licensed in a tax class exempt from paying Vehicle Excise Duty (VED). This means that there is a disparity in the service provided by DVLA to those that pay for their road tax and those that are exempt from paying. This means that a customer who wants a DEOM "nil tax disc", will currently be refused this service.

The Government has made a commitment to reduce the burden on motorists to cut Red Tape. Inclusion to the DEOM scheme for those who are currently not able to use the facility will offer more flexibility to motorists and create savings for businesses with large fleets by allowing vehicles in exempt tax classes to participate.

Policy Objective

The objective is to provide the same service for vehicles which are currently outside the scope of DEOM and to reduce the burden on vehicle owners and businesses. The objective is part of the red tape challenge, this initiative, sponsored by the Cabinet Office, is part of the ongoing drive to reduce the burden of regulation.

How DEOM Works

All vehicles kept or used on the roads in the UK must be registered and licensed (taxed) by the DVLA in accordance with the Vehicle Excise and Registration Act (VERA) 1994. Vehicles can be taxed for 6 months (providing the tax is no less than £55) or 12 months.

However, vehicles keepers who take possession of, and want to use their vehicles, mid way through a month but do not want to pay for the whole of that month may apply for the vehicle tax

to start 1, 2, or 3 weeks into the month. The cost of the extra weeks is calculated pro rata from the cost of the annual rate of duty.

The date of first registration is shown as the first day the tax disc has been taken out but the expiry date on the tax disc incorporate the additional weeks. The tax disc will be annotated to show the additional weeks and the normal expiry date.

The Date to End of Month (DEOM) scheme was introduced initially on a 2 year trial basis on 1 October 1986, following representation from the motor trade who had wanted a 'date-to-date' tax disc. DEOM was intended to benefit those vehicles in high duty tax classes, in particular heavy goods vehicles, by providing them with the flexibility to tax for part of the month for a percentage of a month's duty.

DEOM is issued on request at the point of first registration and customers can choose to tax their unregistered vehicle for 6 or 12 months plus an additional one, two or three weeks. There are three start dates: 10th, 17th, and 24th of each month and a supplement based on the annual cost of a vehicle licence is charged for the additional weeks. The tax disc shows the correct expiry date but will have a note advising 1, 2 or 3 additional weeks.

During the period from August 2011 and August 2012, 2,144,477 vehicles were registered in GB. Table 1 shows how many customers took advantage of the DEOM licence.

Table 1

VED Licence Period	First Registration Volume (08/11-08/12)	Percentage of total vehicles registered
6 mth	53,876	2.5%
12 mth	1,632,793	76.1%
12 mth +1wk	358,941	16.7%
12 mth +2 wk	50,705	2.4%
12 mth +3 wk	22,247	1.0%
6 mth +1 wk	23,466	1.1%
6 mth +2 wk	1,643	0.1%
6 mth +3 wk	807	Less than 0.1%
Total	2,144,477	

Data source - DVLA statistics

Current Exemptions

When the scheme was introduced it was specifically intended to reduce the cost of road tax for those buying vehicles mid-month and as a consequence it was hoped that it would ease the burden on motor dealers by spreading the sales of vehicles throughout the month. It was considered that there would be no benefit for those who were exempt from paying road tax. These vehicles are issued with tax discs which are valid for 12 months and the additional weeks would serve no purpose as the vehicle could be relicensed without charge providing the exemption remained.

Changes in business models has seen an increase in the administration of fleet vehicles whilst changes in technology and the introduction of low CO₂ value vehicles have increased the number of vehicles where no tax is payable. Consequently, there is a strong argument for extending the DEOM scheme to two groups of vehicles:

- i. Vehicles Subject to the Graduated Vehicle Excise Duty

Since the introduction of the graduated vehicle excise duty (Grad VED) first year rates in April 2010 some vehicles which have a low CO₂ emission value are exempt from paying road tax for the first year but then pay an appropriate amount based on the emissions for the second year onwards. This means that if these customers take possession of their vehicles mid month the first year rate will be applied from the start of the month in which the vehicle was first registered. In 12 months the standard rate will be applied in effect giving customers only 11 months and 1, 2 or 3 weeks 'nil' road tax instead of 12 full months. Table 2 shows the number of vehicles that could take advantage of the DEOM scheme, based on 2012 data.

Table 2: Number of Grad VED registrations (2012).

Tax Band - These (bands) are for a vehicle's first tax disc when it's first registered	Registrations
Band B	217,000
Band C	348,000
Band D	382,000
Total	947,000

Data source - DVLA statistics

ii. Exempt Tax Class Vehicles

Table 3 shows the vehicles that were first registered and licensed in an exempt tax class over the period August 2011-August 2012 and not able to participate in DEOM currently.

Table 3

Vehicle type	Number of registrations
Disabled (private vehicles and Motability scheme customers)	194,192
Agricultural and Machines etc	23,556
Police	3,496
Electric (cars and motorcycles)	2,015
NHS	1,703
Ambulances,	1,807
Fire Engine/Service, 172	479
Crown	532
Local Authority – gritters, mowing machines etc.	314

Limited Use	1432
Steam	58
Lifeboat/light house	38
Historic Vehicles -not classed as new	6,045
Total	235,667

Data source - DVLA statistics

A number of the vehicle types in the exempt taxation classes are managed by fleet or leasing companies e.g. NHS, police, ambulances, local authorities, and those managed by Motability Operations (MO).

MO and other fleet operators have expressed interest in DEOM licensing which, from an administration point of view, would benefit them by only requiring vehicles to be licensed three times instead of four during the contract period.

MO is a non-profit making organisation and the leading car scheme for disabled people. The Motability scheme allows customers who are in receipt of the Higher Rate Motability component to exchange their mobility allowance to lease a brand new car (or alternatively a scooter or powered wheelchair). MO buy and manage a fleet of 550,000¹ vehicles which are leased on fixed term contracts of 3 years after which time the vehicle is returned to MO and the customer can lease another new vehicle. This means that the DVLA will receive some 194,000 applications a year to register new vehicles from MO.

As part of the package MO registers and taxes the vehicle and relicenses annually on the customers behalf. If the customer takes possession of the vehicle mid month rather than at the beginning of the month MO has to take out a tax disc from the first of the month even though the date of first registration may be later. This means that when the leasing contract expires after 3 years MO, or any other leasing company with the same type of contract, will have to relicense for an additional 12 months even though the vehicle will be passed back into the company's possession after 1, 2 or 3 weeks. This may incur an additional administration cost to the leasing company concerned not only for taking out the fourth relicensing but also for returning the exempt tax disc to DVLA when the lease expires.

Statutory Obligation

Road Vehicles (Registration and Licensing) Regulations 2002 (Section 33) sets out the duration of a nil licence as 12 months. This means that in order to license and register during a month the road tax must start from the beginning of the month in which it is being used and the tax will expire 12 months from the date of issue unless it is surrendered in the meantime. The powers under section 22 of Vehicle Excise and Registration Act (VERA) 1994 will be used to amend the 2002 regulations to provide for the DEOM scheme for nil licences.

Description of Options Considered

Option 1 – Do nothing

¹ Figures published by Motability Operations at www.motabilitycarscheme.co.uk/main.

The Status Quo will remain. This option is taken as the benchmark against which Option 2 is compared, consequently the NPV from this option is zero.

Option 2 (preferred) - Allow customers who are currently excluded from the DEOM scheme due to the construction or use of their vehicle, the option to obtain a nil tax disc for an additional 1, 2 or 3 weeks. This includes all exempt tax classes including MO and Grad VED vehicles.

This will cut the burden on businesses (not applying for a fourth tax disc in the lease cycle) and individuals by allowing vehicles that are currently outside the DEOM scheme to participate in the scheme. Vehicle keepers who choose to take possession of their vehicle 1, 2 or 3 weeks in to the month may apply for additional weeks to be added to their 12 month tax discs. This will be on an optional basis and will not affect the expiry date of the tax disc.

Monetised and Non-monetised Costs and Benefits of Option 2.

Scale of Impacts

Option 2 impact on the public, government and business.

The overall size of costs and benefits will depend on uptake of DEOM. Each year approximately 947,000 (reference in table 2) new Grad Ved registrations come onto the system.

We model three separate scenarios for uptake below to examine the sensitivity of results to different uptake.

- a) 100% uptake - assuming that all eligible motorists apply for DEOM.
- b) 25% uptake (the best estimate) – based on DEOM applications from currently eligible motorists.
- c) 10% take-up - a lower than expected uptake.

In addition there are 235,000 Nil licenses, the majority of which are Motability registrations. Motability Operaterations have told us that they will take advantage of this scheme so we assume take-up for Nil license holders will be 100%.

	Full-Take-Up	Best Estimate	Low Take-up
Nil Licence	235,000	235,000	235,000
Grad VED	947,000	236,750	94,700
Total	1,182,000	471,750	329,700

Monetised Costs

To Public -There will be no additional costs to the public when choosing to take a nil rate DEOM licence

To Government - There are two major costs: set-up and loss of tax revenue. Set-up costs cover IT costs of changing the system. We estimate the mean value of these to be £206,000.

Loss of Tax Revenue.

There will be a small amount of VED lost to the Treasury to allow for the extra weeks of nil road tax; for those on the Grad VED schemes. Table 5 shows the amount lost under the three take-up scenarios.

Calculations are broken down into the three Grad VED Tax bands using information from DVLA tax return data. The duty lost per eligible driver is calculated on the assumption that a driver with a car eligible for Grad VED duty will pay one month less duty under Option 2 than under the status quo. The amounts for each tax band are the annual tax rate divided by 12.

Under the best estimate scenario of 25% take-up the amount of revenue lost is £1.14 m per annum in 2013 prices.

Tax Band	Duty lost per eligible driver	Number of Drivers Eligible	Take-Up		
			100%	25%	10%
band B	£1.66	217,000	£360,220	£90,055	£36,022
band C	£2.50	348,000	£870,000	£217,500	£87,000
band D	£8.75	382,000	£3,342,500	£835,625	£334,250
Total		947,000	£4,572,720	£1,143,180	£457,272

To Industry – Based on targeted consultation with the major stakeholder, Motability Operations, there are no costs to industry from the extension of DEOM under Option 2.

Monetised Benefits

To Public – Drivers of cars eligible for Grad VED who choose to take advantage of DEOM will save one month of road tax payments under this scheme in the first year of implementation. The benefits to drivers are the opposite of lost revenue to DVLA from the extension of DEOM set out in table 5. Under the central estimate of 25% take-up the benefits would be £1.14m to drivers every year.

There are no tax benefits to members of the public from the extension of DEOM to nil tax categories. Nil tax category registrations are dealt with through firms mostly rather than the general public so there are no savings from reduced registrations here either.

To Government – DVLA estimate that there will be an annual reduction of £140,000 in admin costs for no longer having to issue and cancel 4th licences for nil tax licence owners. The savings are related to postage, staffing and IT systems cost savings.

To Industry – Lease companies or vehicle management companies, such as MO buy, register and license significant numbers of vehicles and lease them to customers. The leasing company relicenses annually on the customers behalf. If the customer takes possession of the vehicle mid month rather than at the beginning of the month the company has to take out a tax disc from the 1st of the month even though the date of first registration may be later. This means that when the leasing contract expires after 3 years the leasing company will have to relicense for an additional 12 months even though the vehicle will be passed back into the company's possession after 1, 2 or 3 weeks. This incurs an additional administration cost to the leasing company concerned not only for taking out the fourth relicensing but also for returning the exempt tax disc to DVLA when the lease expires.

DVLA estimate that admin costs savings from business no longer having to apply for a 4th tax disc in three year leases will mirror the savings DVLA makes from no longer having to administer them. This is £140,000 per annum. More work will be done to firm up this estimate with business once the extension to DEOM has bedded in.

Non-Monetised Benefits

To Public – The additional weeks requested are simply annotated on the tax disc. This gives customers flexibility and is consistent with facility available for duty paying customers.

To Government – Government intervention will mean an extension to the DEOM scheme. The policy will bring fairness to all vehicle keepers, as the DEOM scheme will be available to all motorists and businesses.

Net Present Value

Table 6 shows the net present value for option 2 under the three eligibility scenarios relative to the status quo option. It can be seen that under all scenarios there is a positive NPV indicating that Option 2 is preferable to Option 1, the status quo. Whilst costs and benefits vary significantly between the different options the NPV remains constant because the source of variation is in tax payments as a result of eligible drivers deciding to take-up DEOM. Reduced tax payments are a benefit to drivers but an offsetting cost to government.

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Total
Costs											
Low	660	427	412	398	385	372	359	347	336	324	4,021
High	4,636	4,269	4,124	3,985	3,850	3,720	3,594	3,473	3,355	3,242	38,248
Best	1,323	1,067	1,031	996	963	930	899	868	839	810	9,726
Benefits											
Low	712	688	665	642	621	600	579	560	541	523	6,132
High	4,689	4,530	4,377	4,229	4,086	3,948	3,814	3,685	3,561	3,440	40,358
Best	1,375	1,329	1,284	1,240	1,198	1,158	1,119	1,081	1,044	1,009	11,836
Net Benefits											
Low	52	261	253	244	236	228	220	213	205	198	2,110
High	52	261	253	244	236	228	220	213	205	198	2,110
Best	52	261	253	244	236	228	220	213	205	198	2,110

Direct costs and benefits to business calculations (following OITO methodology)

The definition of an OUT- a deregulatory measure whose direct incremental economic benefit to business exceeds its direct incremental economic cost to business. OUTs can be sourced from existing regulations which are removed completely or existing regulations which are recast in order to reduce burdens.

This measure qualifies as an out because it will result in a direct reduction in costs to business as a result of the reduction in administration costs to the leasing company concerned not only for taking out the fourth relicensing but also for returning the exempt tax disc to DVLA when the lease expires. The measures direct impact will be to Motability Operations, as highlighted within this evidence base.

We have discussed the overall savings with Motability and they have estimated that the savings will mirror those at DVLA (£140,000) per annum in 2013 prices. This gives an equivalent annual net cost to business of -£0.12million in 2009 prices. Discounted to 2010.

Assumptions

Customers register their vehicles at the beginning of the month; with most DEOM customers taking out the 1 week to the licence.

Wider Impacts/ Social Impact

Statutory Equalities Duties Impact: There is no race, gender, sexual orientation, transgender, age, pregnancy/maternity or religious implications. However this option 2 will particularly help Motability Operations and their customers who have a disability.

Human Rights Impact: There are no implications resulting from the introduction of this proposal.

Health and Well Being Impact: There are no Health or Wellbeing impacts. There would be no change to lifestyle and no foreseeable likelihood of a significant demand on any Health and Social Care Services.

Justice System Impact: There are no implications for the Justice System resulting from the introduction of this proposal.

Financial Impact – as above

Competition Impact: The introduction of DEOM for exempt tax classes will not affect the scope and nature of competition between businesses.

Small Firms Impact: There is no impact on small firms. The main benefit will be to Motability Operations.

Environmental Impact: This policy will have no significant environmental impacts.

Wider Environmental Issues Impact: The introduction of DEOM for exempt tax classes will have no significant environmental impacts. Some may decide to drive a low emission car, but this policy is unlikely to affect decisions made to buy such a vehicle.

Rural Proofing Impact: This policy will have no impact on rural communities.

Sustainable Development Impact: There will be no significant environmental or intergenerational impacts from this policy.

Summary

The DEOM scheme allows vehicle keepers the flexibility to tax for part of the month for a percentage of a month's duty (e.g. 12 months + 1, 2 or 3 weeks). The scheme has only been available for vehicles for which vehicle tax is paid.

Government intervention, by amending regulations, will mean an extension to the DEOM scheme to include those who want a nil tax disc. The DEOM scheme will be available to all motorists. Government intervention is therefore fair, and right, to include all vehicles/motorists within the DEOM scheme.

Option 1 - The status quo to remain. Some vehicles for which a 'Nil' tax disc is issued cannot take part in the DEOM scheme.

Option 2 - To allow those who are currently excluded from the DEOM scheme to obtain a nil tax disc with an additional 1, 2 or 3 weeks added to a 12 month disc. This will require an amendment to the current regulations. (preferred option).

Legislation changes are on course to be introduced before the end of 2013. The extended DEOM scheme will be available from early 2014 for customers.

The policy will be reviewed in 2018, in line with the Department's requirement to review actual impact.