

Modernising the taxation of the haulage industry: lorry road-user charge

A discussion paper

January 2005



HM TREASURY



HM Customs and Excise

Department for
Transport



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INTRODUCTION

BACKGROUND

1.1 The Government is committed to ensuring that all lorry operators, regardless of nationality, contribute on a fair and equal basis towards the costs that they impose.

1.2 In Budget 2002, the Government announced its intention to introduce a charge for all lorries based on distance travelled in the UK, and to reduce fuel duty for lorry operators paying this charge.

Policy objectives

1.3 The Government's overarching policy objectives for LRUC are:

- **Fairness and efficiency.** All lorry operators using UK roads should contribute fairly towards the cost they impose in the UK – the aim is to ensure the appropriate balance between user charges and other methods of raising revenue from lorry operators.
- **Positive impact on transport and the environment.** The charge should reflect the costs associated with road use.

1.4 In November 2001 the Government sought stakeholder views on the different options for an LRUC in the consultation document '*Modernising the Taxation of the Haulage Industry*'. Taking account of those results and further analysis, the Chancellor of the Exchequer announced in the 2002 Budget¹ that the UK would become one of the leading countries in Europe in modernising taxation of the haulage industry and that the Government had decided to introduce a distance-based charge which would apply to all lorries driving in the UK. Paving legislation in that year's Finance Bill provided high level enabling powers to allow the development of the charge.

1.5 The Government recognises that some operators already contribute towards the costs they impose. It therefore confirmed in May 2003² that, to ensure equality, the offsetting tax reductions would be provided by a reduction in fuel duty for all lorries using fuel purchased and paid for in the UK.

1.6 The move towards the procurement phase of the programme formally commenced with the Procurement Prospectus in May 2004 and was announced in "*Modernising the Taxation of the Haulage Industry Progress Report 3*" published on Budget Day 2004.

1.7 LRUC is being run as a joint programme between HM Treasury, HM Customs & Excise and the Department for Transport. The Government is committed to working with all sectors of the industry to introduce LRUC and a sub-group of the Road Haulage Forum was set up specifically to cover LRUC. This meets regularly to provide policy input to inform the development of LRUC, and is made up of the Road Haulage Association (RHA), the Freight Transport Association (FTA), the Transport & General Workers Union (TGWU), the Society of Motor Manufacturers and Traders (SMMT),

¹ Progress Report 1

² Progress Report 2

Archbold Freightage, Safeway Stores plc, Christian Salvesen plc, and the British Vehicle Rental and Leasing Association (BVRLA).

1.8 As set out in the progress reports, it is expected that lorry operators will be required to register for LRUC and have an on-board unit fitted in each lorry, which will measure electronically the distance travelled. The charge will be levied on each kilometre driven in the UK. The chargepayer will be entitled to claim a rebate against the fuel duty paid on fuel bought in the UK. The LRUC authority will calculate the amount of charge payable and how much fuel duty is due, and will send a regular statement of the amount of LRUC owed and fuel duty rebate due. Operational details will be refined once contractors are appointed, following a procurement exercise for the systems and services necessary to operate LRUC which is currently under way.

Timetable

1.9 It is expected that the procurement exercise will result in contracts being awarded by December 2005. During the procurement prospective suppliers are being asked to propose and develop the specific technological solutions that will be needed to operate LRUC. This means that the technological solution proposed by the successful bidder will not be known until late 2005.

1.10 However, the Government recognises that potential contractors need certainty about the legal basis for LRUC before committing to a contract. The Government is committed to LRUC and so, although the first payment of the charge is not due until 1 January 2008, the Government is considering legislation for Finance Bill 2005, subject to available legislative space. This would be followed by secondary legislation, which the Government plans to make and lay in 2006 and which will reflect the detail of the successful solution. There may also be a need for further primary legislation in later Finance Bills.

PURPOSE OF THIS DISCUSSION PAPER

1.11 A number of high-level policy decisions have now been taken, in light of consultation with the industry and other interested parties.

- LRUC will be based on distance rather than time (*Progress Report 1*).
- It will apply to all lorries with a maximum permissible weight over 3.5 tonnes driving in the UK. Rates will be structured so that heavier and more polluting lorries pay a higher rate (*Progress Report 2*).
- There will be a compensating reduction in fuel duty available on fuel bought in the UK for lorries paying the charge, regardless of nationality (*Progress Report 2*).
- This reduction will be provided via a fuel repayment scheme rather than by introducing a new, marked, fuel (*Progress Report 3*).

1.12 Annex A gives a full list of documents already issued, which provide more detail on the progress that has been made on LRUC.

1.13 Decisions will be needed shortly on some more specific issues. This discussion paper therefore seeks the views of lorry operators and other interested parties on some of the issues relevant to implementation of LRUC including:

- the definition of the chargeable person and vehicle (chapter 2);
- the scope of any exemptions from LRUC (chapter 3);
- the LRUC rate structure including the definitions of weight and trailers and varying the charge by emission standards, axles, type of road and time of day (chapter 4); and
- the operation of the fuel repayment scheme for fuel stored at hauliers' own yard sites (chapter 5).

1.14 The Government is interested in the views of lorry operators and others affected by LRUC, both within and outside the UK, and of the general public. Responses will help inform future policy decisions on LRUC, the preparation of draft legislation, discussions with prospective suppliers, and the development of a Regulatory Impact Assessment.

1.15 This paper does not cover administrative matters or the compliance regime. The Government's general intention is to build on the approach used for other taxes administered by Customs, but this will depend greatly on the systems chosen to administer and enforce the charge.

HOW TO RESPOND

1.16 Although views would be welcome on all aspects of the Government's approach, some specific questions are set out in the body of this document so that they can be seen in context.

1.17 We ask a total of 33 questions. To help us analyse the responses we are asking some general questions (in questions numbered A1, A2 etc.) which are indicated with ♦ before the question number. Others are of a specialist nature, possibly suitable for answer only by lorry operators (numbered B1, B2 etc.).

1.18 A response form at **Annex B** (starting on page 27) lists these two sets of questions separately, and also asks for some background information to assist the analysis of the responses.

Responses should be sent on this form to reach HM Customs by 28 February 2005 to:

Discussion Paper Response
LRUC Secretariat
HM Customs & Excise
4th Floor, New Kings Beam House
22 Upper Ground
London SE1 9PJ

Alternatively you can email replies to:

LRUC.responses@hmce.gsi.gov.uk

1.19 Please note that:

- although responses to this document will be considered carefully, they may not be acknowledged individually; and
- responses and the names of respondents may be quoted and made available to the public unless you state that you do not wish this information to be made available in this way, for example because of commercial confidentiality.

◆ Question A1 **Are you prepared to allow your response and name to be made available to the public?**

◆ Question A2 **Are there any specific questions for which you would not want your answer to be made public?**

2

DEFINITIONS

2.1 It will be necessary to define various terms in the legislation. This chapter seeks views on what definitions should be used to determine:

- the chargeable person who is legally responsible for paying the charge and eligible for the fuel duty repayment; and
- the chargeable vehicles which are liable for LRUC.

CHARGEABLE AREA

2.2 LRUC will apply in England, Scotland, Wales, Northern Ireland and UK offshore islands, but not the Channel Islands or Isle of Man.

2.3 The requirements for a system which could distinguish between a chargeable and a non-chargeable road section would add complexity to the technical requirements for LRUC charging equipment and infrastructure. The more roads that are exempt, the more potential areas for complexity and costs involved in collecting the charge, and the greater the possibility that the scheme will create higher compliance costs for lorry operators. Exempting a substantial number of roads would also cause problems for the fuel repayment scheme. It would be very difficult to restrict the fuel repayment only to fuel used on chargeable roads, but if lorries still benefited from the duty reduction for the fuel they use while driving on such roads, this would be distortive.

2.4 The Government has therefore decided that, in principle, LRUC will be applied to all distance travelled by a chargeable vehicle in the UK. This means that, unless a vehicle is exempt (see paragraph 3.3), it will be charged for all the distance it travels, on or off public roads. It will also be eligible for the offsetting fuel duty repayment for all fuel purchased in the UK.

CHARGEABLE PERSON

2.5 It will be necessary to define the person who is legally responsible for paying the charge and eligible for the fuel duty repayment. This could be a company or an individual.

2.6 It is envisaged that the chargeable person for LRUC would be:

- the person who is required to hold an operator's licence in respect of a chargeable vehicle under the Goods Vehicles (Licensing of Operators) Act 1995 (O-licensing) or the holder of the European Community authorisation for vehicles registered elsewhere in the EU, or the equivalent for vehicles from non-EU countries; or
- if there is no such person (e.g. because the vehicle is exempt for O-licensing purposes), the holder of the registration certificate (the **registered keeper** for UK vehicles).

2.7 The key advantage of this approach is that, as far as possible, it is based on concepts which are already familiar to the industry, thus keeping the compliance costs down.

2.8 There are also advantages for enforcement since details of UK vehicles can be easily verified via DVLA or the VOSA database of operators' licences. Robust enforcement of the charge is in the interests of the legitimate haulage industry, to ensure that it is not undercut by unfair competition from others who seek to evade the charge. There is an existing procedure for O-licence holders to notify changes of vehicles held on a licence and the Government will be exploring the scope to align LRUC procedures with this.

2.9 The registered keeper should also in general be easy to establish from the vehicle registration documents which should normally be carried by the driver.

2.10 Because both the O-licence holder and the registered keeper are concepts with analogies elsewhere in the EU, the Government believes that this two-tiered approach should cover all vehicles based in or entering the UK.

2.11 The proposed approach could involve a requirement to register for LRUC for a very short period of time in the case of short-term hire to people who take the lorry onto their O-licence, although the hire companies could act as their agents. In the case of hire to private individuals (who do not have O-licences), it is likely that the hire company would be the chargeable person and would recover the LRUC through its hire charges.

◆ Question A4

The Government proposes to define the chargeable person as the person required to hold an Operator's licence (or its overseas equivalent) for the vehicle in question, with the default that, if there is no such person, it is the registered keeper (or overseas equivalent).

How would the proposed definition affect your business and any vehicles you may have on short-term hire?

CHARGEABLE VEHICLE

2.12 LRUC will apply to vehicles above 3.5 tonnes, but there is no existing suitable single definition of a lorry or an HGV that can easily be adopted for LRUC. In defining which vehicles are liable for LRUC the Government is seeking a definition which is simple for vehicle operators and is easily enforceable both for UK and overseas based vehicles. Where possible the Government will want to align LRUC with the existing UK Vehicle Excise Duty (VED) structure because it is familiar to the UK trade, and much of the way LRUC is operated will involve close links to the DVLA database.

Option A: Charge all non-passenger vehicles over 3.5T

2.13 One approach would be to charge all non-passenger vehicles over 3.5 tonnes, with targeted exemptions as outlined in chapter 3. This would mean charging commercial vehicles used for carrying goods, vehicles that are not intended for commercial use and those used for specialised purposes. It would avoid any need to determine whether a vehicle is used commercially or not, and limit the number of vehicles which would need to be identified as exempt. It would minimise the risk of borderline disputes and avoid concerns about repeated registration and de-registration of vehicles as their usage changes.

2.14 For UK vehicles, this would mean *excluding* vehicles described in the Vehicle Excise and Registration Act 1994 (VERA) Schedule 1, Parts I, II and III ('light passenger vehicles', 'light goods vehicles', 'motorcycles' and 'buses') and *including* vehicles in Parts IV to VIII.

2.15 The downside of this option, compared with Option B, is that it would bring more vehicles and operators – both from within the UK and from overseas – within the scope of LRUC, requiring them to register for and pay the charge, but also ensuring that they would receive duty rebates on their UK-purchased fuel.

Option B: Charge commercial HGVs only

2.16 The main alternative approach is to charge LRUC only on goods vehicles used for commercial purposes (the HGV class for the purposes of UK VED¹). This would include goods vehicles licensed to carry exceptional loads, as well as 'haulage vehicles' (which have a separate definition²).

2.17 Other vehicles would be outside LRUC, continuing to pay the full rates of excise duty on their UK-purchased fuel as their contribution to the costs they impose.

2.18 This is an easily identifiable and relatively simple approach for UK-registered vehicles – it would include vehicles in Parts VI, VII and VIII of VERA Schedule 1. It would reduce the number of vehicles within the scope of LRUC. But it could make it difficult to ensure that vehicles entering the UK which should pay the charge could be effectively identified. For enforcement purposes, if such a vehicle had not registered for LRUC, the Government would need to be able to determine which VED category it would be subject to if it were UK-registered. Some VED categories are based on vehicle construction, but others are based on usage, including the test of whether or not they are capable of commercial use.

2.19 In practice this could mean asking a driver or operator of an overseas vehicle to declare whether or not a vehicle would be used commercially while in the UK. As well as an additional burden for overseas lorry operators, this approach could give rise to questions of equity of treatment between UK and foreign hauliers, which would need to be resolved if it were adopted. In particular, the Government is concerned that vehicles not registered for UK VED would be able to claim exemption from LRUC for certain journeys or periods of time while in the UK, and then revoke their declaration, such that they effectively only pay the charge when they were actually in commercial use. UK-registered vehicles would not be able to take advantage of the same claims for exemption without changing their VED registration.

2.20 There would be increased cost and inconvenience for the Government and industry if claims for short-term exemption and re-registration were increased, and the fair operation of the fuel duty repayment scheme could become extremely difficult for those vehicles.

¹ As described in of VERA Schedule 1 Part VIII ('Goods vehicles').

² Parts VI ('Exceptional loads') and VII ('Haulage vehicles').

◆ Question A5

The Government has not yet come to a final view on which vehicles should constitute a “lorry” for the purposes of LRUC. Taking into account the need for simplicity for hauliers, and ease and equality of enforcement, which definition of a chargeable vehicle do you prefer?

OPTION A: All non-passenger vehicles over 3.5 tonnes

OPTION B: Commercial HGVs over 3.5 tonnes

Question B8

The Government wishes to consider the impact of LRUC on hauliers’ choice of vehicles. If you operate vehicles close to the 3.5 tonne limit, would you consider switching to lighter vehicles which were outside the scope of LRUC?

3

EXEMPTIONS

3.1 The Government expects that there will be vehicles that are within the scope of LRUC but which may need to be exempted from LRUC (and ineligible for the fuel duty repayment). It is likely that exempt vehicles, which may have a similar physical appearance to chargeable ones, will need to be notified to Customs in some way, so that even if they are identified during LRUC enforcement activity, no enforcement action is taken.

3.2 Exemptions are not attractive in general terms because of the complexity they introduce. More importantly, because liability to LRUC is to be accompanied by a compensating fuel duty repayment, there should be no need for significant numbers of vehicles to be exempt or to mirror the existing exemptions within legislation on tachographs, O-licensing, the London area congestion charge or VED.

3.3 Vehicle-related exemptions should not depend on usage and should be able to be determined when a vehicle is registered for LRUC. This is to provide clarity for lorry operators and drivers and avoid disputes. Any exemptions are likely to be based on the following principles:

- socio-economic or public policy reasons (including, for example, emergency service vehicles);
- vehicles which cannot, by virtue of their physical characteristics, be used in competition with commercial haulage;
- vehicles that cannot benefit from the commitment to revenue neutrality (e.g. vehicles which are used solely off-road and can legally run on red diesel all of the time).

HGVs FUELLED BY PETROL

3.4 There are approximately 4,000 UK-registered HGVs which run on petrol. Because of the complexity of setting up and operating a separate fuel duty repayment solely for such a limited number of vehicles, the Government is considering exempting them from the scope of LRUC.

Question B9

Do you operate any petrol HGVs?

Question B10

What influences the choice to use a petrol vehicle rather than one fuelled by diesel? How would exemption from LRUC (and the fuel duty repayment scheme) affect this choice?

TRADE PLATES

3.5 The Government is considering how to treat vehicles being driven on trade plates. It has identified three situations in which trade-plated lorries might drive on UK roads:

3.6 New vehicles under construction/ testing /prior to sale: A vehicle which has not yet been registered with DVLA could be driven using only a Trade Plate. The Government's view is that such a vehicle should not be registrable for LRUC or the fuel duty repayment scheme, as it has not at this stage been sold to its first real owner.

3.7 LRUC and DVLA registered vehicles being driven by a trade licence holder on behalf of the operator (e.g. for repairs): These vehicles will have a vehicle registration plate showing, as well as a Trade Plate. Since such a vehicle (and operator) would already be registered for LRUC, the Government believes that the "main" operator should continue to be liable for LRUC and eligible for the fuel duty repayment for any distance travelled by the Trade Licence Holder.

3.8 Vehicles sold to the motor trade and not yet sold on to a new owner: In some circumstances the motor trade simply 'brokers' a transfer direct to a new customer. In this case, the new owner immediately becomes liable for the LRUC at the point of transfer of ownership.

3.9 However, where a motor trader takes possession of a vehicle, and it is driven on trade plates for a short period until the new owner pays VED on the vehicle, there are two possible options:

Option A: Trade licence holder registers for LRUC

3.10 The Trade Licence Holder could be treated like any other lorry operator. Under this option, he would be required to register for LRUC, and then add and remove vehicles from his LRUC account as he takes possession and disposes of them. He would be able to claim fuel duty repayments on any fuel he puts into such vehicles while in his possession. Although this would be simplest from Customs' point of view, and has advantages for enforcement, the Government recognises that it could involve significant compliance costs for the Trade Licence Holder.

Option B: Exempt trade licence holders from registering

Recommended option

3.11 It would be possible to exempt Trade Licence Holders from the need to register for LRUC or to exempt vehicles driven on trade plates. This might suit them. However there may be scope for an unfair advantage if a lorry is fuelled (and fuel duty repayment claimed) before being passed to a Trade Licence Holder. But the scope for this to affect competition in the haulage market is limited since vehicles on trade plates are not allowed to be used for carrying goods.

◆ Question A6

Do you agree that, where a vehicle is driven on Trade plates by a Trade Licence Holder before being passed to a new owner, either the vehicle or the Trade Licence holder should be exempt from LRUC?

4

RATE STRUCTURE

4.1 One of the key aims of LRUC is for the charge to reflect the costs associated with road use. It would be possible to vary the charge rate according to a variety of factors that are related to those costs, as set out below.

4.2 The factors that the Government intends to take into account are:

Road wear

Relative charge levels should bear in mind the wear caused on the road infrastructure, i.e. the heavier the lorry the higher the rate of LRUC.

Environment

The environmental credentials of the vehicle should be reflected in the charge, so that the less polluting vehicles should pay less.

Fairness and efficiency

Charging should be broadly equivalent for the total weight transported whatever the vehicle combination.

- Empty running should not be encouraged under LRUC.
- UK and foreign vehicles should be subject to the same charge structure.
- Driver intervention should be minimised, to reduce compliance burdens for hauliers and minimise the risk of non-compliance.

4.3 In the light of this assessment, the Government intends that charge rates for LRUC should be set using a matrix consisting of some or all of the following factors:

Vehicle characteristics

- Weight
- Emissions class
- Number of axles on the tractor unit
- The presence of a trailer (other than a semi-trailer)

Other possible charging factors

- Road type
- Time of day

They are explained in more detail in the rest of this chapter.

VEHICLE WEIGHT

4.4 In defining weight, the Government is keen to use data from the Harmonised Registration Document¹ which should be universally available by the time LRUC is implemented. It is considering two options for determining the chargeable weight for LRUC.

Option A: Maximum Technically Permissible Laden Mass

4.5 **Maximum Technically Permissible Laden Mass** (MTPLM) is the weight which a vehicle can transport (by virtue of chassis strength, braking and engine power etc), irrespective of the country of operation or any domestic weight regulations. It does not include the weight of ‘trailers’ as discussed below (paragraph 4.19).

4.6 The advantage of using MTPLM as the weight by which LRUC is differentiated is that it is the only mandatory weight information required to be shown on the new-style Harmonised Registration Documents in the EU. But since MTPLM is a technical design maximum, it is likely that this value will be significantly in excess of the actual weight limit which is placed on a vehicle by the country in which it is being operated. It is therefore a poor proxy for the maximum weight at which a lorry is likely to travel.

4.7 A further complication is that many HGVs will have similar MTPLM values. Under this option two vehicles, one with a 24 tonne and one with a 44 tonne “plated” weight, could, conceivably pay the same LRUC rate because both could have the same MTPLM (for example 50 tonnes).

Option B: Maximum Permissible Weight

Recommended option

4.8 **Maximum Permissible Weight/Mass** (MPW – known as MPM in Europe) is the actual weight at which a specific vehicle can legally operate in the UK or in its home country. This is more flexible and realistic than MTPLM and is more meaningful for UK vehicles (for which it would be the “plated weight”). However, MPW/M is not required to be shown in the Harmonised Registration Document, so we will need to be able to cater for the different weight definitions which may be in use for overseas vehicles.

4.9 The proposed approach to determining the weight of a chargeable vehicle is therefore:

- **1st Choice – MPW/M (plated weight).** If that cannot be established, the most appropriate weight information available in the registration document will be used in order to identify the maximum weight at which the vehicle was entitled to operate, in its country of registration (we would cap this at 44T as this is the limit on UK vehicles that are not engaged in moving abnormal indivisible loads).
- **2nd Choice - MTPLM (design weight),** or if that cannot be established;
- **3rd Choice -** In the unlikely event that there is no useable weight information LRUC would be charged as if the vehicle had a MPW/M of 44T (while still taking account of its actual number of axles).

4.10 For abnormal loads, there may be a special, higher, rate (or rates).

¹ Required under Directive 1999/37/EC and implemented from 1 June 2004.

Question B11

The Government believes that the most appropriate definition of a vehicle's "weight" for the purposes of LRUC would be the maximum weight at which the vehicle is permitted to operate in its country of origin (or in the UK if lower). This is the "plated weight" for UK vehicles. How would you demonstrate the maximum permissible weight for your vehicles to make sure that you were paying the right amount of LRUC?

VEHICLE EMISSIONS

4.11 In keeping with the principle that lorries should pay for the cost they impose both on infrastructure and on the environment, it would be desirable to vary the rate of LRUC according to the emissions standard of the chargeable vehicle in question. Exhaust emissions can be measured in a number of ways, but the overriding standard is that of Euro Emissions Category. The Government therefore proposes to vary the rate of LRUC according to the emission standard appropriate to each chargeable vehicle.

4.12 This approach would require operators to state the emissions class their vehicle falls into, with suitable evidence, when registering for LRUC.

4.13 However, it is not certain that all operators would be able to provide this information without recourse to a vehicle's manufacturer. There is no single date of introduction for each Euro standard, but different dates for new and existing vehicle types. The Government is therefore considering proxies which might be used to make it easier for operators to demonstrate which emissions standard a vehicle meets.

4.14 The Government believes that the date of first registration of a vehicle is likely to offer the most suitable proxy, as it can be compared with the dates on which the introduction of new Euro emissions standards became compulsory. If the date of first registration could not be determined, and no other suitable evidence were available, the vehicle would be treated as if it met only the lowest standard which could be proven.

Question B12

The Government is considering how best to ascertain a vehicle's Euro emissions class. Can you readily identify the Euro emissions standard of your vehicles, and how could you demonstrate it? If not, can you readily identify the date of first registration of your vehicles, and do you agree that this would provide the most appropriate proxy?

AXLES

4.15 The Government is considering differentiating the rate of LRUC according to the number of axles on a vehicle, in a way which encourages HGVs to use more axles at a given weight to spread the load borne by each one and mitigate road wear.

4.16 One option would be to vary LRUC according to vehicle train axles. This would include all axles fitted to the vehicle and any trailer or semi-trailer being pulled. The benefit would be that less road-friendly trailers (with few axles but high weight) could be charged more.

4.17 The problem with this approach would be the need for significantly increased driver intervention, since the driver would have to declare the number of vehicle train axles on a journey-by-journey basis, perhaps by using a switch on the on-board equipment. This would increase the potential for error or fraud.

4.18 Therefore the Government has concluded that, at any given weight, the most appropriate approach for differentiating by number of axles would be based on whether a vehicle – either a rigid lorry or a tractor unit – has 2, 3 or 4+ axles, with the highest rate of LRUC for the fewest number of axles. Axles for this purpose would include any lift axles fitted to a vehicle.

TRAILERS

4.19 The maximum permitted weight of an articulated vehicle with a semi-trailer includes the weight carried in the semi-trailer. But a rigid vehicle can haul more freight than is identified by its own maximum permitted weight if it pulls a trailer. The same total weight could be carried in either vehicle combination, but the rigid vehicle would only bear the LRUC charge applicable to its own weight, rather than the total weight of the vehicle and its trailer.

4.20 The Government therefore thinks that it is appropriate to charge a higher rate to avoid creating an undue incentive to move heavier loads in trailers attached to lighter vehicles. This would apply when a lorry is pulling a trailer whose weight is not included in the maximum permitted weight of the chargeable vehicle.

4.21 Because a vehicle can be driven with or without such a trailer attached on separate journeys, this would be the only rate variation category which could change after registration of a vehicle for LRUC. Drivers might need to declare the presence of a “chargeable” trailer before each journey on which one was used.

4.22 The Government is keen to define a trailer in a way that would make it easy to decide whether the higher rate should apply.

Option A: A trailer whose weight is not included in the vehicle’s Maximum Permissible Weight

4.23 One option would be to charge any trailer whose weight is not included in the vehicles’s maximum permissible weight. However it is not clear whether the driver of a vehicle would find this a workable definition.

Option B: A specific trailer definition

4.24 Under this option, the Government believes that it would be appropriate to include “drawbar” type trailers, whether pulled by rigid or articulated vehicles, but to exclude semi-trailers (because their weight is already included in the vehicle’s Maximum Permissible Weight). The main options for such a definition are:

- **Option B1** - any trailer transferring less than 20% of its weight to the pulling vehicle.
- **Option B2** - a trailer that transfers none, or only very little, of its weight to the towing vehicle.

4.25 The more technical definition (**Option B1**) is aligned to the semi-trailer threshold in the Road Vehicles (Construction and Use) Regulations². The Government proposes to use this definition if it is sufficient to identify all of the trailers which are used in this way.

² SI 1986/1078, as amended

Question B13

The Government wishes to identify a suitable definition for trailers whose weight is not included in the vehicle's Maximum Permissible Weight. Which of the proposed options would be most appropriate, taking into account the need for a driver to be able to determine whether or not a trailer is 'chargeable'?

Option A: charge the higher rate for any trailer whose weight is not included in the vehicle's Maximum Permitted Weight

Option B1: charge the higher rate for any trailer transferring less than 20% of its weight to the pulling vehicle (the regulatory definition of a semi-trailer)

Option B2: charge the higher rate for any trailer that transfers none, or only very little, of its weight to the towing vehicle

TYPE OF ROAD

4.26 The Government is considering charging a different rate on motorways to reflect the different costs imposed³. The systems being procured are therefore designed to be able to vary LRUC according to two types of road:

- one rate for chargeable kilometres driven on a motorway;
- another rate for chargeable kilometres driven on other roads.

4.27 However, the Government wishes to assess the likely impact of such variation before deciding whether to charge different rates in practice.

4.28 'Motorway' will be defined for LRUC according to the statutory definitions. The presence of clearly-defined entries and exits aids the development of simple technical means to identify when a vehicle is travelling on such a road.

4.29 The statutory definitions will not permit an extension of the motorway rate to other roads. Although there are other roads which are constructed in ways similar to motorways, there is no easily identifiable definition which would distinguish between them and other differently constructed roads.

◆ Question A7

The Government is considering whether to use the capability to have different charging rates on motorways. What rate of differential between motorways and other roads would provide an incentive for changing driving patterns?

Question B14

What benefits and drawbacks do you see in having a different rate for motorways?

³ Progress Report 2, paragraph 2.7

TIME OF DAY

4.30 The Government is keen to encourage lorries to travel at times of the day when they impose the lowest costs⁴.

4.31 The systems being procured for LRUC are therefore designed to be able to vary LRUC according to two time slots and the working assumption is that those time slots will be 'day' and 'night', though the Government wishes to assess the impact of such variation before deciding whether to charge different rates in practice.

◆ Question A8

The Government is considering whether to use the capability to charge different rates at different times of day. How would this affect your business, and what rate of differential for different times of day would provide an incentive for changing driving patterns?

Question B15

Taking into account the needs of your clients to be served during the daytime hours (say 0800 to 2000), what proportion of the vehicle kilometres that you drive could be switched to night-time hours?

OTHER IMPACTS

4.32 Responses to the specific questions earlier in this discussion paper will help us understand how individual elements of the charge will affect different organisations, businesses and sectors. The Government also wishes to understand more about the potential impact on the haulage industry of a number of other issues as it continues to develop the detailed plans for operating the charge.

Question B16

In what ways (not already stated) do you envisage altering your distribution practices when LRUC is introduced?

Question B17

How might LRUC affect your decision to purchase new vehicles (type and stock)?

Question B18

In what ways do you think that LRUC will interact with the Working Time Directive? Will this have any influence on your working patterns?

⁴ Progress Report 2, paragraph 2.8

5

FUEL DUTY REPAYMENT SCHEME

BACKGROUND

5.1 In recognition of the fact that some operators already contribute to the costs they impose, the Government has decided that there should be an offsetting fuel repayment scheme for all lorries using fuel purchased in the UK.¹

5.2 The legitimate haulage industry should be able to receive the fuel duty repayment as easily as possible, but the Government will take robust steps to prevent claims for the duty repayment in respect of diesel used in non-chargeable vehicles, as such activity would unfairly undercut the legitimate haulage industry.

OWN YARD STORAGE

5.3 Own Yard Storage (OYS) refers to the system whereby hauliers keep diesel on their own sites rather than using commercial bunkers or retail sites. Initial research indicates that there may be substantial numbers of OYS sites which do not have sufficiently reliable metering systems to record both the amount of fuel dispensed and details of each vehicle fuelled.

5.4 This poses obvious risks for control of the fuel duty repayment scheme and verifying claims. The risk is potentially higher where operators fuel mixed fleets (both chargeable and non-chargeable vehicles) with diesel from the same storage tank on their own yards.

5.5 The Government expects that the largest hauliers will be able to supply accurate detailed electronic data on how much fuel is put into which vehicles. But where there is no fuel management system there may be substantial potential for fraud, particularly for claims to be made on fuel that is put into non-qualifying vehicles.

5.6 The Government is therefore exploring what arrangements are needed for OYS sites without adequate metering, to meet its main aim of modernising the taxation of the haulage industry while preventing unfair commercial advantage. It is considering an approach which would set risk-assessed thresholds for OYS operators based on fuel throughputs and metering equipment, and whether or not sites service mixed fleets. This would involve a tiered approval regime for OYS sites, with the potential to encourage gradual improvements in hauliers' systems.

5.7 Operators who are below the thresholds would be able to claim fuel duty repayments with lower standards of measuring and data transmission equipment than operators distributing larger quantities of fuel or fuelling mixed fleets. Larger operators might be required to have more sophisticated systems in place from the start or to upgrade their systems within certain time limits.

5.8 The Government is interested in the impact that such a tiered approach would have on OYS operators and the operation of the fuel repayment scheme.

¹ Progress Report 1

- ◆ Question A9** The Government is considering a tiered approval system for OYS facilities. Do you agree that it would provide a fair and proportionate way of minimising the scope for fraud, and hence unfair competition for the legitimate haulage industry?
- Question B19** What is the annual throughput of diesel for each OYS site you operate?
- Question B20** How do you see your use of OYS changing over the next 5 years?
- Question B21** Which of the following factors influence your choice of fuel storage?
- (a) price
 - (b) cash flow
 - (c) convenience
 - (d) security of supply
 - (e) other (please specify)
- Question B22** Do your existing fuel management systems allow you to record accurately the amount of fuel put into individual vehicles?
- Question B23** Do you plan to upgrade your fuel management systems?
- Question B24** What do you perceive as barriers to upgrading those systems?

A

REFERENCES

The background to LRUC and progress so far is set out in:

- **Modernising the Taxation of the Haulage Industry - A consultation document**
November 2001
available from the HM Treasury website at:
www.hm-treasury.gov.uk/consultations_and_legislation

And three annual Progress Reports, available from the 'Excise & Other' pages of the HM Customs and Excise website at www.hmce.gov.uk.

- **Modernising the Taxation of the Haulage Industry - Progress report 1**
April 2002 with detail of the consultation response
- **Modernising the Taxation of the Haulage Industry - Progress report 2**
May 2003
- **Modernising the Taxation of the Haulage Industry - Progress report 3**
published alongside Budget 2004

B

RESPONSE FORM

Questions suitable for all respondents are marked **◆** before the question number.

PART A asks about you and raises some general questions.

PART B asks other questions which might only be suitable only for lorry operators.

Please continue your responses on a separate sheet where necessary.

PART A – GENERAL QUESTIONS

Name

Address

Postcode

◆ Question A1

Are you prepared to allow your response and name to be made available to the public?

A1

YES

NO

◆ Question A2

Are there any specific questions for which you would not want your answer to be made public?

A2

◆ Question A3

What is the nature of your business or interest in this policy?

A3

◆ Question A4

The Government proposes to define the chargeable person as the person required to hold an Operator's licence (or its overseas equivalent) for the vehicle in question, with the default that, if there is no such person, it is the registered keeper (or overseas equivalent).

How would the proposed definition affect your business and any vehicles you may have on short-term hire?

A4

◆ Question A5

The Government has not yet come to a final view on which vehicles should constitute a “lorry” for the purposes of LRUC. Taking into account the need for simplicity for hauliers and ease and equality of enforcement, which definition of a chargeable vehicle do you prefer?

- A5 a) OPTION A: All non-passenger vehicles over 3.5 tonnes
 b) OPTION B: Commercial HGVs over 3.5 tonnes

◆ Question A6

Do you agree that, where a vehicle is driven on Trade plates by a Trade Licence Holder before being passed to a new owner, either the vehicle or the Trade Licence holder should be exempt from LRUC?

A6

◆ Question A7

The Government is considering whether to use the capability to have different charging rates on motorways. What rate of differential between motorways and other roads would provide an incentive for changing driving patterns?

A7

◆ Question A8

The Government is considering whether to use the capability to charge different rates at different times of day. How would this affect your business, and what rate of differential for different times of day would provide an incentive for changing driving patterns?

A8

◆ Question A9

The Government is considering a tiered approval system for Own Yard Storage facilities. Do you agree that it would provide a fair and proportionate way of minimising the scope for fraud, and hence unfair competition for the legitimate haulage industry?

A9

PART B – QUESTIONS FOR LORRY OPERATORS

Question B1 How many drivers do you employ? Of these, how many are agency drivers?

- B1 a) How many drivers? _____
 b) Of these, how many agency drivers? _____

Question B2 How many lorries do you own/operate?

B2 _____

Question B3 How many of the vehicles that you use in your business fall into the following categories?

- B3 a) Over 38 tonnes _____
 b) 26 - 38 tonnes _____
 c) 12 - 26 tonnes _____
 d) 3.5 - 12 tonnes _____
 e) 3.5 tonnes or less _____

Question B4 Which sector(s) of the economy do you operate in?

- B4 a) Agriculture, Hunting, Forestry, Fishing
 b) Mining and Quarrying
 c) Manufacturing
 d) Construction
 e) Wholesale and Retail
 f) Other (*please specify*) _____

Question B5 What percentage of your work is

- B5 a) Local? _____ c) National? _____
 b) Regional? _____ d) International? _____

Question B6 What proportion of your activities are based in

- B6 a) Scotland? _____ c) England? _____
 b) Wales? _____ d) Northern Ireland? _____

Question B7

What percentage of your trip would you spend driving on the motorway when travelling in:

- | | | | | |
|----|--------------|-------|----------------------|-------|
| B7 | a) Scotland? | _____ | c) England? | _____ |
| | b) Wales? | _____ | d) Northern Ireland? | _____ |

Question B8

The Government wishes to consider the impact of LRUC on hauliers' choice of vehicles. If you operate vehicles close to the 3.5 tonne limit, would you consider switching to lighter vehicles which were outside the scope of LRUC?

- | | | | | |
|----|--------------------------|-----|--------------------------|----|
| B8 | <input type="checkbox"/> | YES | <input type="checkbox"/> | NO |
|----|--------------------------|-----|--------------------------|----|

Question B9

Do you operate any petrol HGVs?

- | | | | | |
|----|--------------------------|-----|--------------------------|----|
| B9 | <input type="checkbox"/> | YES | <input type="checkbox"/> | NO |
|----|--------------------------|-----|--------------------------|----|

How many?

Question B10

What influences the choice to use a petrol vehicle rather than one fuelled by diesel? Would exemption from LRUC (and the fuel duty repayment scheme) affect this choice?

B10

Question B11

The Government believes that the most appropriate definition of a vehicle's "weight" for the purposes of LRUC would be the maximum weight at which the vehicle is permitted to operate in its country of origin (or in the UK if lower). This is the plated weight for UK vehicles. How would you demonstrate the Maximum Permissible Weight for your vehicles to make sure that you were paying the right amount of LRUC?

B11

Question B12

The Government is considering how best to ascertain a vehicle's Euro emissions class. Can you readily identify the Euro emissions standard of your vehicles, and how could you demonstrate it? If not, can you readily identify the date of first registration of your vehicles, and do you agree that this would provide the most appropriate proxy?

B12

Question B13

The Government wishes to identify a suitable definition for trailers whose weight is not included in the vehicle’s Maximum Permissible Weight. Which of the proposed options would be most appropriate, taking into account the need for a driver to be able to determine whether or not a trailer is ‘chargeable’?

- B13 a) OPTION A: charge the higher rate for any trailer whose weight is not included in the vehicle’s Maximum Permitted Weight
- b) OPTION B1: charge the higher rate for any trailer transferring less than 20% of its weight to the pulling vehicle
- c) OPTION B2: charge the higher rate for any trailer that transfers none, or only very little, of its weight to the towing vehicle

Question B14

What benefits and drawbacks do you see in having a different rate for motorways?

B14

Question B15

Taking into account the needs of your clients to be served during the daytime hours (say 0800 to 2000), what proportion of the vehicle kilometres that you drive could be switched to night-time hours?

B15

Question B16

In what ways (not already stated) do you envisage altering your distribution practices when LRUC is introduced?

B16

Question B17

How might LRUC affect your decision to purchase new vehicles (type and stock)?

B17

Question B18

In what ways do you think that LRUC will interact with the Working Time Directive? Will this have any influence on your working patterns?

B18

Question B19

What is the annual throughput of diesel for each OYS site you operate?

B19

Question B20

How do you see your use of OYS changing over the next 5 years?

B20

Question B21

Which of the following factors influence your choice of fuel storage?

B21

- | | | | |
|-----------------------------|---------------------------------|-----------------------------|--------------------|
| a) <input type="checkbox"/> | Price | b) <input type="checkbox"/> | Cash flow |
| c) <input type="checkbox"/> | Convenience | d) <input type="checkbox"/> | Security of supply |
| e) <input type="checkbox"/> | Other (<i>please specify</i>) | | |

Question B22

Do your existing fuel management systems allow you to record accurately the amount of fuel put into individual vehicles?

B22

- | | | | |
|--------------------------|-----|--------------------------|----|
| <input type="checkbox"/> | YES | <input type="checkbox"/> | NO |
|--------------------------|-----|--------------------------|----|

Question B23

Do you plan to upgrade your fuel management systems?

B23

- | | | | |
|--------------------------|-----|--------------------------|----|
| <input type="checkbox"/> | YES | <input type="checkbox"/> | NO |
|--------------------------|-----|--------------------------|----|

When?

Question B24

What do you perceive as barriers to upgrading those systems?

B24
