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CABINET

REVIEW OF VEHICLE EXCISE DUTY

Memorandum by the Minister of Transport

1. In announcing the review of Vehicle Excise Duty (VED) I had four main points in mind:
 - i. The Chancellor of the Exchequer was bound to be reluctant to surrender such an instrument of indirect taxation.
 - ii. In Opposition the Shadow Cabinet had decided to oppose a switch from VED to petrol tax and some colleagues had relied on this pledge during the election campaign.
 - iii. Among the organisations opposed to the change were the Confederation of British Industry, the National Farmers Union and the motoring organisations; and
 - iv. if it was decided to retain VED we would nevertheless want to achieve substantial savings in manpower in the Civil Service.
2. It was already clear that we could expect significant reductions in manpower if we decided to abolish VED. But the possibility of achieving similar benefits while retaining the tax had not been investigated. This has now been done.
3. Transferring licensing work to the Post Office would offer significant manpower savings. It would not require legislation. We would be using public sector resources more efficiently and the public would have a more convenient service than they have now. The Post Office would need only about 200 extra staff. Under this proposal 3,000 post offices, including 1,000 sub-offices, would provide licensing facilities - only 2,000 do so now on a limited scale and for all but the most routine transactions the public have to go to one of only 81 of my Department's local offices. We can count on post offices being able to handle relicensing, but further investigations are needed to see whether they can also take on the more complicated first licensing transactions.

4. We could achieve further staff savings by abolishing short-period licences. I would be against complete abolition because of the large number of motorists ($5\frac{1}{2}$ million) affected but I would support a change from four monthly to six monthly licences coupled with a stamp savings scheme. This would produce a useful manpower saving and extra revenue.

5. Retention of VED would still of course leave the problem of enforcement. There are measures that my Department can and will take but in the long term I am attracted by the idea of tax on possession. This would involve paying tax for having a car rather than, as at present, for using it. This would incidentally also produce further staff savings. Further study is needed and is in hand. It may not be possible to introduce this change before the computers at Swansea are replaced in 1983, but in principle I think the change would be desirable.

6. If therefore we decide to retain VED and to adopt the changes I have indicated above, I would be able to offer savings of 1,150 to 1,350 staff and £3 million over the next two or three years and possibly a further 200 staff and £1 million if we were able to introduce a tax on possession. The savings, though substantial, are less than we could get from abolition. But we should be retaining an important source of tax revenue and keeping to a decision we took in opposition on which many of our supporters relied.

7. Clearly this is a balanced decision. Neither course is free of political disadvantage. However my view is that VED should be retained but at the same time we should seek to achieve the staff savings I have indicated above.

N F

Ministry of Transport

29 October 1979