

Summary: Intervention & Options

Department /Agency: HM Revenue and Customs	Title: Impact Assessment of the implementation of the Energy Products Directive on private pleasure flying	
Stage: Consultation	Version: 1	Date: 1 August 2007
Related Publications: Impact Assessment of the implementation of the Energy Products Directive on private pleasure boats.		

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?

The derogation from the European Energy Products Directive (EPD) which allowed the UK to charge a reduced rate of duty on aviation gasoline (Avgas) and to exempt aviation turbine fuel (Avtur) used in private pleasure-flying expired on the 31 December 2006. The UK is in breach of European legislation and as such is liable to infraction proceedings by the European Commission. The Government announced at Budget 2007 that the changes needed to implement the requirements of the EPD would be introduced with effect from 1 November 2008.

What are the policy objectives and the intended effects?

To implement the terms of the EPD by making fuel used for private pleasure-flying liable to excise duty while ensuring that the impact of new regimes and procedures have the minimum impact on business.

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

The proposed options follow informal consultations with representative organisations of the flying sector and are those preferred both by those organisations and HMRC. Avgas and Avtur are used in different types of aircraft and for different purposes.

Avtur: Purchaser/user liable for duty payment with supplier obliged to draw attention to end-use liability.

Avgas: New free-standing rate of duty on Avgas for both commercial and pleasure use; procedure mirrors the current situation.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

November 2010

Ministerial Sign-off For consultation stage Impact Assessments:

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:

.....Date:

Summary: Analysis & Evidence

Policy Option: a)	Description: the imposition of kerosene duty on the use of Avtur for private pleasure-flying
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' HMRC - £20-£30k one-off set up costs; HMRC -£32,000 compliance costs p.a. individual tax payers - £6-£19k p.a		
	One-off (Transition) Yrs			
	£ 20-30k			
	Average Annual Cost (excluding one-off)			
	£ 38-51,000	Total Cost (PV)	£ ongoing	
Other key non-monetised costs by 'main affected groups' Impact on competition between suppliers. Cost of increased enforcement responsibility for HMRC has not been estimated.				

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups'		
	One-off Yrs			
	£			
	Average Annual Benefit (excluding one-off)			
	£	Total Benefit (PV)	£ n/a	
Other key non-monetised benefits by 'main affected groups' Estimates of compliance costs highly dependent upon number of planes, the number of claims for rebates and the time taken to keep records and submit claims for individual plane owners.				

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?	UK				
On what date will the policy be implemented?	1 November 2008				
Which organisation(s) will enforce the policy?	HMRC				
What is the total annual cost of enforcement for these organisations?	£ neg				
Does enforcement comply with Hampton principles?	Yes/No				
Will implementation go beyond minimum EU requirements?	Yes				
What is the value of the proposed offsetting measure per year?	£				
What is the value of changes in greenhouse gas emissions?	£				
Will the proposal have a significant impact on competition?	Yes/No				
Annual cost (£-£) per organisation (excluding one-off)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">Micro £23</td> <td style="width: 25%; text-align: center;">Small £23</td> <td style="width: 25%; text-align: center;">Medium £23</td> <td style="width: 25%; text-align: center;">Large £23</td> </tr> </table>	Micro £23	Small £23	Medium £23	Large £23
Micro £23	Small £23	Medium £23	Large £23		
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		

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)
Increase of £ 0	Decrease of £ 0	Net Impact £ 0

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

Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

Background

Until 31 December 2006, the UK held a derogation from the European Energy Products Directive (2003/96) which allowed the UK to charge a reduced rate of duty on Avgas and to exempt Avtur used for private pleasure flying. The UK derogations had in fact been time-limited since the predecessor to the EPD was agreed and signed in 1992. In 2001, the Government negotiated an extension to the derogation to 31 December 2006. Although the UK submitted a request in October 2006 for the derogation to be renewed again the European Commission did not accept the UK's arguments and the derogation expired on the 31 December 2006.

At the Budget 2007 the Government made a commitment to introduce the changes needed to implement the requirements of the EPD with effect from 1 November 2008. The Government also made a commitment to consult formally on the new regimes.

Two fuels are used in aviation, Avtur and Avgas. Avtur is mainly used in commercial jet and turbo-prop aircraft, and private pleasure use is considered to be negligible. In its review of the derogations in June 2006 (COM(2006)342), the Commission itself acknowledged this by stating that small light aircraft used in pleasure-flying used a different fuel from jets or commercial aircrafts. Avgas is used in smaller piston-engined aircraft, which are used for both commercial and business purposes as well as for pleasure-flying.

There are no official statistics concerning the consumption of either Avgas or Avtur for private pleasure-flying and so it is extremely difficult to accurately assess the private use of either fuel. There is no reason or obligation for the industry to keep any such records, but estimates are that private pleasure use of Avtur is a fraction of 1% of total use (total Avtur sales in 2005 – the latest year for which we have figures - were 17.5 billion litres), whereas private pleasure use of Avgas is estimated at about 20 % of total use (total Avgas sales in 2006 were 31m litres). The General Aviation sector is the main consumer of Avgas, although General Aviation activities also use Avtur. The General Aviation sector is diverse, covering all flying other than that performed by the major airlines and Armed Services, and includes business aviation, air taxis, flying in support of the emergency services, air ambulances, training for professional and private pilots, aerial photography and surveying.

The options below have been developed taking into account the views of a number of representatives from the aviation sector, including The British Business and General Aviation Association, the Aircraft Owners' and Pilots' Association, the Popular Flying Association and the British Helicopter Advisory Board. Other Government Departments, including the Department for Transport, have also been consulted.

Options

The options for implementation, other than the possibility of doing nothing, differ between Avtur and Avgas because their use differs. To do nothing is not considered to be a realistic option as the UK would be liable to infraction proceedings.

Avtur

All Avtur is currently exempt from duty by virtue of being fully rebated under the Hydrocarbon Oil Duties Act 1979 (HODA) section 11(1)(c). Private pleasure use of Avtur would not benefit from the rebate so would be liable to the full rate of duty for kerosene, currently 54.68ppl. The vast

majority of supplies are to airlines or for corporate/business use and clearly commercial. Taxing all Avtur and allowing a refund for commercial/business use is not an option as international conventions do not allow this. The alternative is therefore that Avtur should remain fully rebated, but duty paid on private pleasure-flying.

1. Fuel supplier liable for duty

There are a number of possible schemes which would allow commercial users to purchase Avtur duty free at the point of sale, for example, on production of proof of entitlement through a pre-registration or self certification scheme for commercial users. All suppliers of Avtur are Registered Dealers in Controlled Oils (RDCO). The supplier would then charge duty if no proof of entitlement was provided. Burdens would be placed on commercial users by the need to register and to ensure that the 'certificate of entitlement' was always produced when purchasing fuel. Burdens would also be placed on fuel suppliers, who would need to keep more extensive sales record than they do currently and record dutiable sales in order to furnish returns and make payment. Any such scheme would be extremely unwieldy and onerous for both suppliers and purchasers, and potentially cause delays in the refuelling process and slow down airport traffic. Such schemes would also cause disproportionate administrative costs for HMRC, concerning the establishment and maintenance of the registration scheme, processing of returns, in return for the collection of a negligible amount of duty.

Such options have therefore been discounted as not viable.

2. Preferred Option - purchaser/user liable for the payment of the duty

The preferred option is that the responsibility for paying the duty due would lie with the purchaser and/or the user of the fuel who would be required to make a declaration and pay duty to HMRC if the fuel were used for private pleasure-flying purposes.

All RDCOs have a duty of care when selling or delivering Avtur to ensure that they only make supplies to customers who have a legitimate use for the oil. This would be extended so that if the RDCO thought that the fuel might be used for pleasure-flying, he would, under his general duty of care, draw attention to the purchaser of his obligation to contact HMRC and pay the duty due. The RDCO would be required to note his records accordingly.

A definition of private pleasure-flying will be required. The EPD contains a definition of private pleasure-flying which leaves considerable room for ambiguity. Views on the interpretation of this will be sought through the consultation process.

There would be a small increased compliance burden on RDCOs to inform the purchaser of the duty liability and to note his records if he thought he might be supplying Avtur for private pleasure-flying.

In addition, there would be:

- additional HMRC administrative costs in devising and administering a payment system.
- increased assurance costs in following up sales of possible private-pleasure use fuel as noted in RDCOs' records to ensure that duty had been paid.
- some legislative changes would be required regarding the RDCOs' obligations and concerning the payment scheme for the purchaser/user.

There would be a risk of non-payment by private individuals.

Revenue impact: negligible.

Avgas

Avgas is currently liable to a reduced rate of duty whether or not it is used for commercial or private use. The duty rate is set at half of the leaded petrol rate HODA section 6(3). The Avgas rate is currently 28.84 ppl.

1: Avgas is taxed as leaded petrol: duty doubled to 57.68ppl

Under this option Avgas would continue to be treated as a light oil under HODA section 6(1A)(b). The current beneficial rate permitted under the terms of the derogation would cease and Avgas would be subject to the full rate of duty, currently 57.68ppl.

Information regarding the number of businesses, and the size of those businesses, which are users of Avgas and which would be affected by a sharp increase in cost of Avgas by the doubling of duty is not available. However, a doubling of duty would have a severe impact across the general aviation industry including an impact on the competitiveness of Avgas users in comparison with Avtur users, a fall in the demand for Avgas, potential safety implications if users were tempted to use cheaper alternative fuels.

This possible option has been discounted as not viable.

2. Preferred option: New separate duty rate for Avgas

Under Article 5 of the EPD, a different duty rate may be introduced for fuel on the basis of product quality as long as it is above the minimum rates laid down in the Directive.

Avgas is a significantly different product to leaded petrol. The CAA only permits the use of road fuel in aviation engines in specific circumstances and prohibits its use in many aircraft engines for safety reasons, hence the higher specification of Avgas. It is tightly controlled during production, and requires specific transport and storage arrangements by oil companies and aerodrome managers for safety reasons. The reasons for which Avgas can be considered to be a different product from leaded petrol include that it has:

- a more complex and more expensive distillation process than for other fuels to meet the special safety demands of aviation;
- a higher octane rating;
- a higher lead content which means that it cannot legally be used as road fuel.

Under this option a new fiscal definition for Avgas with a new duty rate, respecting the minimum rates permitted under the Directive, would be introduced in HODA. The new rate would apply to all Avgas irrespective of whether it were used for commercial, business or private purposes, in the same way that the current reduced rate is applied.

There are a number of advantages to this:

- No change to the current procedures – no burdens on the industry and no effect on the supply chain
- No additional administrative costs for HMRC
- Minor legislative changes only required
- No need to distinguish between commercial and private pleasure use, all Avgas charged at the new rate.

This is the preferred option following discussions with representatives from the aviation organisations.

Views on the proposed definition of Avgas will be sought through the consultation process.

Specific Impact Tests

There are no specific impacts on business of this option as it represents the status quo.

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	No	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	Yes/No	Yes/No
Other Environment	Yes/No	Yes/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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