

# STATES OF JERSEY



## **BUDGET STATEMENT 2010 (P.179/2009): AMENDMENT (P.179/2009 Amd.) – AMENDMENT (P.179/2009 Amd.Amd.) – COMMENTS**

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**Presented to the States on 7th December 2009  
by the Environment Scrutiny Panel**

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**STATES GREFFE**

## COMMENTS

Members of the Environment Panel are slightly surprised to see this late amendment from the Minister to Senator Le Main's proposed amendment on Environmental Tax proposals. Given the shortage of time to prepare comments on this amendment, it seems reasonable to draw members' attention to the more detailed comments on the Senator's amendment in the first instance. As a brief summary, the Panel finds that to be lacking in research, poorly targeted, and unlikely to produce the results that the Senator intends. While capable of generating large amounts of tax revenue, it would be fundamentally inequitable and impose a very significant additional tax burden on large sections of the community, which many people would find hard to sustain. There are also important questions about the effect it might be expected to have on the motor trade and the value of people's cars.

Referring to the main points in the Minister's amendment –

1. It overcomes the first major objection to the Senator's proposal by transferring the basis from engine size to exhaust emissions. This is agreed. From the environmental point of view, emissions are without question the right way to go.
2. The key difference between this and the Minister's original Budget proposal is that the amendment effectively proposes an annual tax on ownership, rather than a one-off tax on purchase. This raises a number of issues –
  - The tax burden to the individual over time would be significantly greater; this promises more revenue to the States, but at the cost of increased hardship for many people.
  - Currently, fuel duty includes an amount which replaced the previous annual road tax; this would therefore be duplicated by a new annual tax on ownership.
  - The effect of such a tax would fall much more heavily on poorer sections of the community. The Minister's original proposition would have less of a regressive effect, as only those in a position to consider the purchase of new car would be affected. The amendment would catch everyone who owns a car, believed to be over 80% of all households, rich and poor.
  - The Panel strongly believes that taxing the use of vehicles (through fuel duty) is a far more equitable way of addressing the environmental harm caused by cars.
  - Given the limitations of the existing bus service, many people have no practical alternative to using a car to get to work, go shopping, visit family or simply get out and about. Sustainable Transport Plan targets include reducing peak-hour car journeys by 15%; even if this is successful, many thousands of people will still need their cars to get to work every day.
  - Many families own more than one vehicle and would therefore pay double the full rate of tax, even if one car was not used all the time.

- There is no consideration of the effects that an annual tax might have on the motor trade, or on the value of people's cars, which could be significant.
  - In terms of changing behaviour, the Panel considers a one-off purchase tax to be essentially fairer than an annual tax. A tax on first purchase could be set at a level which would encourage buyers to really think about the impact their choice will have on the environment. An annual tax would give people no choice – they would be taxed at the level applicable to their existing vehicle, which they may not have the means to change (especially if its second-hand value plummets as a consequence of the new tax).
  - The Panel believes that a better solution would be to apply a tax to every purchase (of both new and second-hand vehicles). Advantages to this would include an increased number of taxable transactions (over the Minister's original proposition to tax new cars only); thus increased revenue; and greater potential to effect behavioural change, with every car buyer encouraged to think about the environmental consequences of their choice. A discounted rate could perhaps be applied in the case of second-hand vehicles, to avoid undue distortion of market values; but crucially this would avoid putting an unfair burden on owners who could not afford to change their cars. (They would still be making a 'user-pays' contribution to the environment by way of increased fuel duty.)
  - Collection of an annual tax would involve increased administration and costs. The Senator's amendment suggests that insurance companies might perform this task, but there is no information as to how this might work or what it would cost. A tax on purchase would be simpler and cheaper to collect.
3. The Panel believes that there is a need to review the position of heavy goods and large commercial vehicles. Emissions from such vehicles are considerably higher than those from cars, and they are frequently in near-constant use. To assess their potential contributions on the same scale as private cars would not take full account of their impact on the environment.
4. Regarding the financial implications of the proposed amendment, the Panel notes that it is not possible to assess this with any accuracy without further information. However, it seems likely that to achieve an equal return to that proposed in the Senator's amendment would involve a similarly high rate of tax on middle-market, family-sized cars which constitute by far the biggest number of vehicles on the roads. This suggests that families and middle-income earners may bear the brunt of any new tax. The Panel questions whether ordinary taxpayers who are already struggling to cope with GST, ITIS, 20=20 and attempting to weather the global economic crisis, can reasonably be expected to find an extra £6 million to fund environmental measures, however worthwhile those may be.