

**EXPLANATORY MEMORANDUM TO
THE EXCISE DUTIES (ROAD FUEL GAS) (RELIEFS) REGULATIONS 2008**

2008 No. 2167

1. This explanatory memorandum has been prepared by HM Revenue and Customs and is laid before Parliament by Command of Her Majesty.

2. Description

This instrument, which comes into force on 1st October 2008, provides for partial relief from the payment of excise duty on road fuel gas. In particular, the purpose of this instrument is to negate, temporarily, the effect of the increases in duty on road fuel gas set out in section 8 of the Hydrocarbon Oil Duties Act 1979 (c. 5) (“the Oil Act”), as amended by section 15 of the Finance Act 2008 (c.9) (“the 2008 Act”). The amount payable as a result of the application of this relief will be 13.70 pence per kilogram in relation to natural road fuel gas and 16.49 pence per kilogram in relation to other road fuel gas.

3. Matters of special interest to the Joint Committee on Statutory Instruments

None

4. Legislative Background

4.1 Section 8 of the Oil Act¹ provides that a duty of excise shall be charged on road fuel gas, defined in section 5 of the Oil Act as any substance which is gaseous at a temperature of 15°C and under a pressure of 1013.25 millibars for use as fuel in road vehicles. Although a wide variety of gases could theoretically be caught by the definition in section 5 of the Oil Act only liquefied petroleum gas (LPG) and natural gas (NG) are currently regularly used as fuel in road vehicles in the UK.

4.2 Section 6 of the Finance Act 2004 amended sections 5 and 8 of the Oil Act to provide for separate rates of duty for LPG and NG. It did this by introducing a new definition of, and rate of duty for, natural road fuel gas. Natural road fuel gas is road fuel gas with a methane content of not less than 80%. The amendments made by section 6 of the Finance Act 2004 came into force on 1st September 2004 at the same time as changes to other fuel duties.

4.3 Budget 2008 announced that the planned fuel duty increase of 2 pence per litre in April 2008 was postponed to 1st October 2008, to support the economy and to help business and families.

¹ Relevant amendments were made to section 8(3) by section 6(2) of the Finance Act 1995 (c. 4), section 1(3) of the Finance Act 2001 (c. 9), section 6(2) of the Finance Act 2004 (c. 12), sections 4(6) and 5(5) of the Finance Act 2005 (c. 7), section 6(5) and 7(5) of the Finance Act 2006 (c.25), section 10(5) of the Finance Act 2007 (c.11) and section 15 (5) of the Finance Act 2008 (c.9).

4.4 The position as announced for road fuel gases was as follows: the duty rate for natural gas would rise to maintain the differential with main road fuel duty rates, and the duty rate for other road fuel gas, including LPG, would rise to narrow the differential with the main road fuel duty rates by the equivalent of 1ppl. These changes would also occur from 1st October.

4.5 To give effect to this decision, Section 15 of the Finance Act amended the Oil Act to provide for those rates of excise duty on road fuel gas to be increased with effect from 1st October. The increase in the rate for NG reflected the 2 pence per litre increase for liquid road fuels. The increase in the rate for other road fuel gas including LPG included an additional amount (the equivalent of 1 penny per litre) to narrow the excise duty differential between the main road fuels and LPG. This differential reduction was not made to NG because the Government considered that it offered greater environmental benefits relative to LPG. These changes were to take effect from 1st October 2008. For NG the increase was 2.9 pence per kilogram, and for other road fuel gas, including LPG, it was 4.28 pence per kilogram.

4.6 On 16th July, the Chancellor of the Exchequer informed Parliament, in answer to a parliamentary question, of his decision not to proceed with the planned 1 October increases in fuel duties, in the light of the global credit crunch and sharp rises in world oil prices which had pushed up prices at the pump.

4.7 To give effect to the decision not to increase fuel duties on 1st October 2008, this instrument provides for partial relief from payment of the duty charged on road fuel gas. The instrument takes effect on 1st October 2008. In practical terms, a person will be liable to pay 13.70 pence per kilogram duty on natural road fuel gas and 16.49 pence per kilogram on other road fuel gas, including LPG.

4.8 This instrument applies only to road fuel gas. The changes to fuel duty rates in respect of liquid fuels made by section 15 of the 2008 Act are, in effect, negated by a separate Order, the Excise Duties (Surcharges or Rebates) (Hydrocarbon Oils etc.) Order 2008 (S.I. 2008/2168). A separate explanatory memorandum has been prepared for that Order, which has been laid before the House of Commons today.

5. Territorial Extent and Application

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

As the instrument is subject to the negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy Background

7.1 The rates of fuel duty, including those for road fuel gases, were increased by the Finance Act as a result of the Chancellor of the Exchequer's Budget 2008. Changes to the duty rates were to take effect on 1st October 2008.

7.2 The decision not to proceed with the 1st October increase in fuel duty was taken by the Chancellor on 16th July in the light of the global credit crunch and sharp rises in world oil prices which had pushed up prices at the pump.

8. Impact

8.1 An Impact Assessment has not been prepared for this instrument as no impact on the private or voluntary sectors is foreseen.

8.2 There is no impact on the public sector.

9. Contact

Ann Little at the Transport Taxes Team, HM Revenue and Customs, 3E/01, 100 Parliament Street, London SW1 2BQ (tel: 020 7147 0383 or e-mail: ann.little@hmrc.gsi.gov.uk) can answer any queries regarding the instrument.