EXPLANATORY MEMORANDUM TO

THE AQUA METHANOL (USE AS ADDITIVE OR EXTENDER) (RATES OF EXCISE DUTY) ORDER 2016

2016 No. 975

1. Introduction

1.1 This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

2.1 The Order prescribes the rates of excise duty charged on the setting aside for use, or on the use, of aqua methanol as an additive or extender in fuel for any engine, motor or other machinery.

3. Matters of special interest to Parliament

Matters of special interest to the Select Committee on Statutory Instruments

3.1 None.

Other matters of interest to the House of Commons

3.2 As this instrument is subject to negative resolution procedure and has not been prayed against, consideration as to whether there are other matters of interest to the House of Commons does not arise at this stage.

4. Legislative Context

4.1 Section 152 of the Finance Act 2016 (c. 24) inserted a new section 6AG into the Hydrocarbon Oil Duties Act 1979 (c. 5) ("HODA") to charge excise duty on aqua methanol when it is set aside for a chargeable use or on its chargeable use. "Chargeable use" means use (a) as fuel for any engine, motor or other machinery or (b) as an additive or extender in any substance so used.

4.2 The rate of duty when aqua methanol is set aside for use, or used, as fuel for any engine motor or other machinery is contained in s 6AG(3)(a) of HODA (see paragraph 7.5 below). When it is set aside for use, or used, as an additive or extender, section 6AG (3)(b) provides that the rate of duty is that prescribed by a Treasury Order. This instrument prescribes those rates.

4.3 This instrument is related to the Biofuels and Other Fuel Substitutes (Payment of Excise Duties etc.) Regulations 2004 (S.I. 2004/2065) ("the 2004 Regulations") which provides a framework for the payment of excise duty dealt with by this Order and the Other Fuel Substitutes (Rates of Excise Duty etc.) Order 1995 (S.I. 1995/2716). The 2004 Regulations have been amended by S.I. 2016/976 so that they apply to aqua methanol.

5. Extent and Territorial Application

5.1 The extent of this instrument is to the United Kingdom.

5.2 The territorial application of this instrument is to the United Kingdom.

6. European Convention on Human Rights

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

7. Policy background

What is being done and why

7.1 Under HODA, certain alternative fuels benefit from a lower rate of fuel duty than that applied to petrol and diesel, in recognition of their environmental benefits. On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation in future once the UK has left the EU.

7.2 The fuels included in this group are compressed natural gas (CNG), liquid natural gas (LNG), biomethane and liquefied petroleum gas (LPG).

7.3 In line with Government policy to provide incentives to cleaner fuels, the Government announced at Budget 2014 that it will apply a reduced rate of fuel duty to aqua methanol that is set aside for road use.

7.4 The rate of duty for aqua methanol set aside for use or used as fuel for any engine, motor or other machinery is set at 7.90 pence per litre. The rate of duty when it is used as an additive or extender is set by this Order by reference to the rate for the fuel to which it is an additive or extender.

Consolidation

7.5 There are currently no plans to consolidate the Order.

8. Consultation outcome

8.1 An informal consultation was conducted with key stakeholders and feedback from this exercise has been fully considered in drafting the legislation.

9. Guidance

9.1 The Excise Notice 179: motor and heating fuels - general information and accounting for Excise Duty and VAT, available on www.gov.uk will be amended to cover this instrument.

10. Impact

10.1 The impact on business, charities or voluntary bodies is negligible.

10.2 There is no impact on the public sector.

10.3 A Tax Information and Impact Note covering this instrument was published on 10 December 2014 alongside draft clauses of the Finance Bill 2015 and is available on the website at https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins. It remains an accurate summary of the impacts that apply to this instrument.

11. Regulating small business

11.1 The legislation applies to activities that are undertaken by small businesses. To minimise the impact of the requirements on small businesses (employing up to 50 people), the approach taken is to keep to a minimum any new regulatory requirements as part of this change.

12. Monitoring & review

12.1 Reviews of compliance with the practical application of the Order will form part of the compliance review programme of the Indirect Tax Directorate of HM Revenue and Customs.

13. Contact

13.1 Andy West at HM Revenue and Customs (Telephone: 03000 554641 or email: andy.west@hmrc.gsi.gov.uk) can answer any queries regarding the instrument.