EXPLANATORY MEMORANDUM TO THE ROAD VEHICLES (PAYMENT OF DUTY BY CREDIT CARD)(PRESCRIBED FEE) REGULATIONS 2005

2005 No. 2460

1. This explanatory memorandum has been prepared by the Department for Transport and is laid before Parliament by Command of Her Majesty

2. Description

This Instrument provides that the fee (in effect a convenience charge) payable by anyone who uses a credit card to pay vehicle excise duty (VED) will be £2.50 for each vehicle licence or trade licence application that is made.

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

None

4. Legislative Background

4.1 The Finance Act 2004 inserted Section 19C into the Vehicle Excise and Registration Act 1994 (VERA). This legislation allows the introduction of the convenience charge.

4.2 The legislation provides that the Secretary of State, or any authorised body, shall require the applicant for a licence to pay him the prescribed fee in respect of the acceptance of the credit card payment for that licence.

5. Extent

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

As the instruments are subject to negative resolution procedure and do not amend primary legislation, no statement is required.

7. Policy Background

7.1 In exercising the power to prescribe a fee in Section 19C of VERA, these Regulations allow that section to achieve its objective of levying a fee for using credit cards in payment of vehicle excise duty.

7.3 The introduction of this charge allows the extension of the payment facilities offered for vehicle excise duty and is a direct result of customer demand. Increasing the payment options available may encourage more people to pay VED in a timely manner, as they will have the option to spread the cost over a longer period. It is intended to cover the charges levied by credit card companies, which range between 1.15% and 2.5 % depending on the credit provider.

7.4 A public consultation on the structure of the charge was undertaken at the end of 2004. The preferred option was for a flat rate fee to be introduced for all motorists. The consultation was posted on the Internet and sent in hard copy to 389 organisations and individuals. A total of 41 replies were received, mainly from trade organisations, organisations representing people with disabilities and private individuals. Of the responses received, the majority who expressed a preference chose the option of a flat rate fee for all transactions. Although an initial fee level of £3.50 was proposed, after further consideration of the fee required to offset credit card company charges. This has now been revised to £2.50. For the majority of customers, this fee will amount to less than 2% of the transaction cost.

7.5 The Post Office will be an authorised body and so will charge the prescribed fee when a credit card is used in connection with a licence application.

8. Impact

8.1 A Regulatory Impact Assessment has been prepared to accompany this Instrument. There is minimal impact on business, charities and voluntary bodies. It is a purely voluntary provision which allows organisations and individuals to choose whether to use credit cards and thus incur the charge. All other existing licensing methods will remain free of charge.

8.2 There is no impact on the public sector. The charge will cover the cost of the fees from the credit card companies, where VED is levied. Crown Vehicles are unaffected as they do not require a vehicle licence. There will be no increase in resource required as any credit card transactions will replace existing licensing transactions (where appropriate).

9. Contact

Andrew Cude at the Driver and Vehicle Licensing Agency (DVLA) Tel: 01792 765203 or email: andrew.cude@dvla.gsi.gov.uk can answer any queries regarding the instrument.

REGULATORY IMPACT ASSESSEMENT

THE CONVENIENCE CHARGE FOR CREDIT CARD PAYMENTS OF VEHICLE EXCISE DUTY (VED)

TITLE OF PROPOSAL

1. Following the introduction of primary legislation in the Finance Act 2004, the Driver and Vehicle Licensing Agency (DVLA) will be able to offer the option of paying for VED by credit card for vehicles registered and licensed in the United Kingdom.

*(**Please Note:** Wherever reference is made in this RIA to DVLA, it will also incorporate the Driver and Vehicle Licensing Northern Ireland (DVLNI) unless otherwise stated).*

PURPOSE AND EFFECT

2. DVLA does not have the funding available to cover the cost of taking credit card payments for VED. However, the Agency is fully committed to modernising its services and improving customer satisfaction. It recognises its obligations to respond to customer demand where possible. In this case, this can only be achieved by introducing a convenience charge to balance the costs associated with accepting payments by credit card.

3. The purpose of this assessment is to set out the likely impact on individuals and business of the introduction of a convenience charge for credit card payments.

BACKGROUND

4. DVLA is responsible for the registration and licensing of vehicles. Following demand by its customers, DVLA is introducing the facility of paying for VED by credit card. The transaction processing charge levied by the credit card companies will be passed on to those customers who choose to use the service.

5. The introduction of a charge for credit card transactions would allow the Agency to widen the payment facilities it offers and is a direct result of customer demand. The convenience charge is required to cover the costs involved.

6. Increasing the payment options for VED may also encourage more people to pay VED in a timely manner with the option to spread the cost of VED over a longer period, and therefore encouraging relicensing. This will ensure that MoT and insurance details are valid at time of licensing, increasing road safety and compliance with statutory obligations.

7. The introduction of a convenience charge for credit card payments will increase the cost to business by only a nominal amount. The fee is designed to minimise the impact on the taxpayer. Credit card payments will allow businesses to exercise flexibility in making their own decisions. Businesses that do not feel that they will benefit, will retain the option of the existing standard payment methods, which remain free of charge.

RISK ASSESSMENT

8. It is DVLA's aim to continue to respond to the needs of its customers, by enhancing the range of services it provides.

9. DVLA has the technical ability to provide an increased level of service to its customers, in line with demand but cannot introduce the option to pay by credit cards without introducing a convenience charge. Failing to introduce this new payment method will prevent DVLA from meeting customer demands to offer a broader range of payment options. It will also fail to fully utilise available systems. This positive step towards increasing customer choice will ensure the continued modernisation of DVLA.

OPTIONS

10. There are five options (A-E), allowing for the charge levied by credit card companies to be passed onto the customer when payment for VED is made by credit card.

BENEFITS

11. **Option A:** All customers are treated equally and can clearly see what rate should be paid. Those licensing Heavy Goods Vehicles (HGVs) would particularly benefit from this flat rate charge. No discernible social and environmental benefits have been identified.

12. **Option B:** The introduction of two flat rates ensures that there is a correlation between the transaction amount and the convenience fee charged. Those paying lower rates of VED would benefit from a lower charge as there is less of a requirement to subsidise the higher bands. No discernible social and environmental benefits have been identified.

13. **Option C:** The amount of convenience charge relates directly to the level of the transaction. The bands are easy to understand, with a close correlation between the transaction amount and the amount of the convenience charge. The benefits are

spread between licensing bands, with no band subsidising another. No discernible social and environmental benefits have been identified.

14. **Option D:** The bands relate closely to the amount of the VED transaction. The bands are balanced, so that no band subsidises another, whilst preventing the main burden falling on the transport industry. No discernible social and environmental benefits have been identified.

15. **Option E:** This system offers low convenience charge rates for low value VED transactions. Haulage companies also benefit. No discernible social and environmental benefits have been identified.

COST BENEFITS

16. **Option A:** A flat rate charge of £2.50 for all transactions, regardless of the amount of vehicle excise duty (VED) paid. Many companies that pass on a credit card convenience charge levy between 2.5% and 5% of the transaction amount. For the majority of customers, the percentage charge in this case would be 2% or less. Those licensing Heavy Goods Vehicles (HGVs) particularly would benefit from a charge as low as 0.18%.

17. **Option B:** A charge of £3 per transaction up to, and including, an amount of £200. A charge of £6 for transaction amounts in excess of £200. Those licensing HGVs would also experience a reduced percentage rate, in some cases as low as 0.3%.

18. **Option C:** A charge based on the value of the VED transaction amount, on a rising scale:

Band	Minimum level (£)	Maximum level (£)	Charge (£)
1	**0**	**100**	**2**
2	**101**	**200**	**3**
3	**201**	**400**	**4**
4	**401**	**600**	**6**
5	**601**	**800**	**8**
6	**801**	**1000**	**10**
7	**1001**	**1600**	**20**
8	**1601**	**No Maximum**	**40**

The benefits are spread between licensing bands, with no band subsidising another.

19. **Option D:** A charge based on the VED transaction amount, but with less distinction between the bands:

Band	Minimum Level (£)	Maximum Level (£)	Charge (£)
1	**0**	**200**	**2.50**
2	**201**	**800**	**6**
3	**801**	**1000**	**10**
4	**1001**	**1600**	**20**
5	**1601**	**No Maximum**	**40**

Indeed, the highest charge for an HGV would be a convenience charge of 2.4% with the majority falling into the 1.25% category. The administration of the scheme, whilst complex, is simpler to implement and understand than option C.

20. **Option E:** A convenience charge based on the taxation class of the vehicle. Motorcycle taxation class would attract a charge of £1; Private/ Light Goods and graduated VED classes a charge of £2; all other vehicles would be based on a banded scale, as detailed:

Band	Minimum Level (£)	Maximum Level (£)	Charge (£)
1	**0**	**400**	**3**
2	**401**	**1000**	**6**
3	**1001**	**No Maximum**	**15**

This system offers low convenience charge rates for low value VED transactions. In addition, haulage companies also benefit from the maximum convenience charge being set at £15.

EQUITY AND FAIRNESS

21. This new facility will allow customers more flexibility and the freedom to choose from a wider range of payment methods. The existing payment methods will remain free of charge, and the use of a credit card will remain entirely voluntary so, in effect, whether or not to incur the charge also remains voluntary.

SOCIAL EXCLUSION ISSUE

22. DVLA does not believe that any social exclusion is likely to arise from these proposals. In their consultation response, Disability Action, a Northern Ireland charity working with and for disabled people, stated that the introduction of the facility to pay for VED with a credit card will be an advantage for people with disabilities as it will allow them to renew the VED from home.

RACE RELATIONS AND DIVERSITY ISSUE

23. It is not considered that these proposals will have any race equality or diversity impact. No consultation responses highlighted any areas of concern.

HUMAN RIGHTS

24. We believe that these regulations will have no impact on human rights. No consultation responses highlighted any concerns over human rights issues.

CONSULTATION RESULTS

25. 389 consultation documents were issued to organisations and individuals and the consultation was also posted on the Internet. In all 42 responses were received, and out of these only 19 chose a preferred option. The totals are shown in the table below.

Option	Total
A	**8**
B	**1**
C	**1**
D	**5**
E	**4**

Out of the five options in the document, the most favoured was Option A, which was a flat rate charge of £3.50 for all transactions, regardless of the amount of VED paid. Support for Option A came from within the motor industry, as well as from individuals who responded to the consultation, which was also posted on the DVLA website. Most of the responses supporting Option A were in favour of this option due to its simplicity, and ease of administration.

SMALL FIRMS IMPACT TEST – CONSULTATION WITH SMALL BUSINESSES

26. DVLA believes that the impact on small businesses will be insignificant. In their response to the consultation, the Federation of Small Businesses (FSB) welcomed the proposal to widen the choice of payment facilities, and stated that a quarter of small businesses regularly use credit cards for business purposes. The ability to use a credit card to pay for VED will increase the flexibility offered to small businesses. The FSB did express their opposition to levying a convenience charge on customers who choose to pay for their VED with a credit card, and urged that the lowest possible charge should be applied.

    The Small Business Service (SBS) has been consulted as part of this exercise and agree that the proposal to introduce credit card payment of VED could prove beneficial to business. However, SBS are concerned that the imposition of an extra charge to be levied for credit card usage will impede the flexibility offered to small business. Unfortunately, DVLA will not be able to introduce this facility without a charge. However, the level of the charge has now been set at £2.50.

COMPETITION ASSESSMENT

27. As this is an optional method payment of credit card for VED, there is unlikely to be a negative competition impact from these changes to the regulations.

ENFORCEMENT AND SANCTIONS

28. There will be no enforcement implications or sanctions as a result of the implementation of these proposals.

MONITORING AND REVIEW

29. DVLA monitors its own financial position continuously. Interested parties are consulted as part of this review process.

SUMMARY

30. DVLA wishes to introduce a convenience charge for customers paying VED by credit card. Credit card companies charge a percentage of the amount of each transaction as a fee. Due to financial constraints, and the need to provide value for money for the taxpayer, DVLA cannot absorb this cost. Without introducing a convenience charge to the customer, DVLA would be unable to accept payment of VED by credit card.

MINISTERIAL DECLARATION

I have read the Regulatory Impact Assessment and am satisfied that the benefits justify the costs.

Signed.....

Date

Minister's name, title, department.

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